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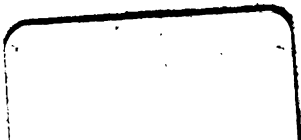
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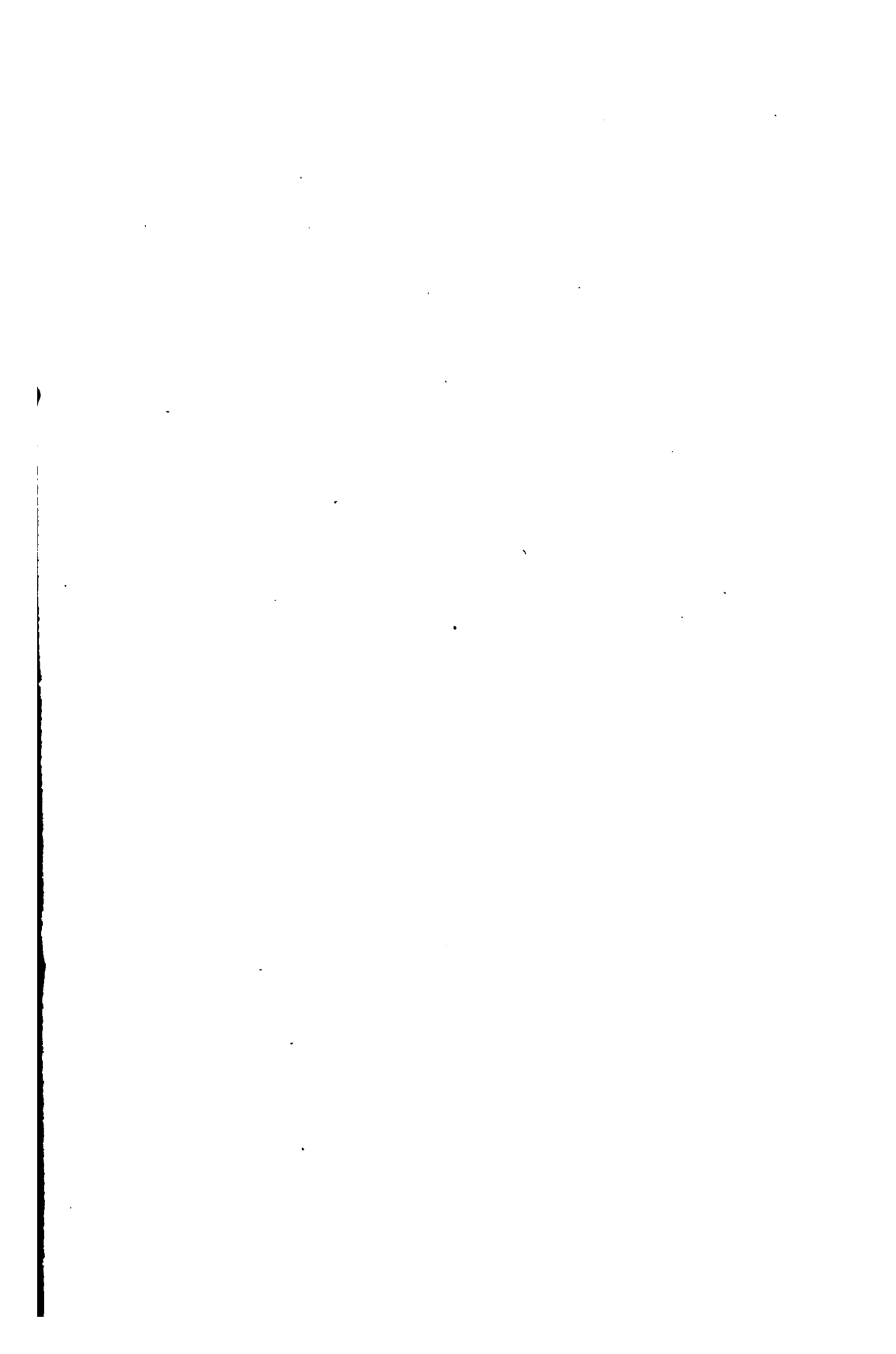
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# HEARINGS

BEFORE THE

## COMMITTEE ON AGRICULTURE

HOUSE OF REPRESENTATIVES

SIXTY-THIRD CONGRESS

FIRST, SECOND, AND  
THIRD SESSIONS

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(IN TWO VOLUMES)

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# AGRICULTURAL EXTENSION

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H. R. 7951

COMMONLY KNOWN AS THE  
LEVER AGRICULTURAL EXTENSION BILL

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SEPTEMBER 23, 1913

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## AGRICULTURAL EXTENSION.

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COMMITTEE ON AGRICULTURE,  
HOUSE OF REPRESENTATIVES,  
*Tuesday, September 23, 1913.*

The committee this day met, Hon. Asbury F. Lever (chairman) presiding.

The CHAIRMAN. Gentlemen of the committee, we are taking up this morning for hearing what is commonly known as the Lever agricultural extension bill. I will ask Dr. Galloway to present the proposition from his viewpoint.

### STATEMENT OF DR. B. T. GALLOWAY, ASSISTANT SECRETARY OF AGRICULTURE.

Dr. GALLOWAY. Mr. Chairman and gentlemen of the committee, the committee has before it a bill to provide for cooperative agricultural extension work between the agricultural colleges in the several States receiving the benefits of an act of Congress approved July 2, 1862, and of acts supplementary thereto, and the United States Department of Agriculture. This bill is a modification of the Lever bill, which passed the House last year and which was reintroduced in the Senate. I understand it to be the wish of the chairman and of the members of the committee that this discussion be opened with a consideration of the present bill in comparison with the old bill. I will endeavor merely to discuss the bill in detail, pointing out the differences between the existing measure and the former bill, the Secretary following with general statements as to the principles involved in the consideration of this bill.

As already noted, the present bill provides for cooperative agricultural extension work between the United States Department of Agriculture and the agricultural colleges in the several States. The old bill provided for the establishment of agricultural extension departments in connection with the agricultural colleges in the several States. The new bill differs from the old one in that it is a purely cooperative measure. In the present bill the words "agricultural extension departments" have been modified to "cooperative agricultural extension work," this being necessary simply to carry the proper phraseology through the bill. As already stated, in the original bill no provision was made for cooperation between the various State agricultural colleges and the United States Department of Agriculture, although the work that is naturally carried on would be carried on in very close relationship, and all of the extension and demonstration work carried on by the State continues, as well as that by the department, and under this bill they are correlated.

The CHAIRMAN. I would suggest that you take the bill up section by section and note the changes in the new bill as compared with the old bill.

Dr. GALLOWAY. That, Mr. Chairman, I was planning to do, laying the foundation for the specific statements by making this general statement as to the general differences.

Now, taking the bill by sections, if you will take section 2, members of the committee—it is rather difficult to follow these two sections for critical examination, but I think that we can call attention to the differences. In section 2 of the new bill provision is made for the conduct of the work in a manner mutually satisfactory to the Secretary of Agriculture and to the heads of the agricultural colleges within the States. In the old bill, of course, this provision was not incorporated, because in that section there was no statement whatever requiring cooperative relationship. Following the phraseology of the old bill, no attempt is made to define the exact methods which shall be used in gathering information, except that the method of demonstration is mentioned, and later in the bill there is a prohibition against lectures in colleges. The procedure to be followed in the different States will be to serve the best interests and the particular usefulness within the States. In other words, there is no attempt in this bill to fasten upon the States a stereotyped form of extension work—that is, the same type of work for all the States. It is believed that such an attempt would be unwise, and for that reason the phraseology in the old bill has been mainly followed, giving the Secretary of Agriculture and the heads of the agricultural colleges within the States the power to shape up the projects and mutually approve them in such fashion that the work formulated for the State and projected within the State will be such as to best fit the needs of the individual State.

Possibly in passing it might clarify the situation if there are any questions to ask to ask them section by section.

Mr. MAGUIRE. In making the regulations somewhat lax, would not the States be likely to fail to come up to the requirements and simply use the funds?

Dr. GALLOWAY. Provision is made for that later, in another section.

Mr. HAWLEY. Do I understand that none of this work is to be done at the agricultural colleges?

Dr. GALLOWAY. The work is to be done throughout the States. The whole intent of this bill is to teach farmers on their own farms.

Mr. HAWLEY. Would any of the work be done at the agricultural colleges?

Dr. GALLOWAY. Occasionally there will be work done there, but the major portion of the work will be done throughout the State rather than at the agricultural colleges. In other words, this bill provides for taking agricultural education in various ways to the people throughout the States, including demonstrations, boys and girls' club work, and all other forms of extension work that may now be in vogue or developed later, but none of the money is to be used in teaching at the colleges, in the construction of buildings, or for any other purpose except as specifically mentioned later on in another section of the bill.

Mr. HAWLEY. It would not prevent the agricultural workers doing the work in the field if they thought it advantageous and using a number of people at the college because they had a plant there to use?

Dr. GALLOWAY. It is the design of the bill that the extension departments shall be organized at the colleges under the direction and supervision of the president or dean of the college and carried on throughout the States by and with the men connected with the colleges.

Mr. MAGUIRE. Have you any limitation on publications?

Dr. GALLOWAY. Yes; there is a limitation on publications in another section. Only 5 per cent of the money appropriated can be used for publications.

Mr. HAWLEY. Why did you omit the proviso in section 2 of the old bill?

Dr. GALLOWAY. We did not omit the proviso in section 2. Section 2 of the new bill is a modification of section 2 of the old bill. We omitted section 3 in the old bill. Section 3 in the old bill reads:

That all correspondence for the furtherance of the purposes of this act issued from the agricultural colleges to their agents or by the agents of the said extension departments thereof receiving the benefits of this act shall be transmitted in the mails of the United States free of charge

It simply gives the franking privilege to the workers in these extension departments. The old bill did that. Owing to the cooperative relations that will exist between the Agricultural Department and the State colleges there will be no need for that clause. The franking privilege necessarily follows.

Mr. HAWLEY. The proviso in section 2 of the old bill reads:

*Provided*, That nothing contained in this act shall be construed to interfere with either the demonstration of farm-management work as now conducted by the Department of Agriculture and known as the farmers' cooperative demonstration work and farm-management work.

Dr. GALLOWAY. That proviso was omitted because, as this is a cooperative measure and all projects are to be mutually agreed upon by the Secretary of Agriculture and the agricultural colleges, that proviso was considered unnecessary.

Mr. HEFLIN. The men who go out to do this farm demonstration work, will they continue to do that work under the appointment and direction of the Secretary of Agriculture as now?

Dr. GALLOWAY. Yes; that is the plan. It is thought, however, that that work can be made more effective if it is coordinated fully with the work now being carried on in the States or the demonstration work to be inaugurated by the States. The fact is that during the last two or three years there has been such a growing demand for this demonstration work throughout the country, the demand on the department for this type of work has been so great, as you well realize, that there is bound to be eventually confusion and chaos unless there is some early means taken of coordinating the work. The object of this bill is not in any way, as I understand it, to interfere with the work already in progress, but it is to make that feasible and practicable, and to coordinate all that work in such a way that the best interests of the whole country will be served.

Mr. HEFLIN. These men will be paid by the General Government; their salaries will be paid by the General Government?

Dr. GALLOWAY. From these Federal funds appropriated by the General Government; yes.

Mr. HAWLEY. Half of it will be paid by the amounts appropriated by the States also?

Dr. GALLOWAY. After the funds begin to come in from the States. That must be a matter of adjustment, however, in detail, between the Secretary of Agriculture and the State authorities.

I think it is understood that there is no necessity for section 3 of the old bill, which provides for the franking privilege, and the clause in the former bill, "*Provided*, That nothing contained in this act shall be construed to interfere with either the demonstration or farm-management work"—that paragraph is not essential or necessary. The Secretary will have full authority to bring the work of the department into coordination with this other work.

Section 3 of the new bill or 4 of the old bill makes provision for the financing of the work. This clause, I might say, is practically the same as in the original bill with one exception, which I will refer to later. Four hundred and eighty thousand dollars is appropriated for each year, \$10,000 of which shall be paid annually in the manner hereinafter provided to each State which shall assent to the provisions of this act. Then after the first year there will be appropriated \$300,000, and the amount will be apportioned to each State based on the relation of the rural population of that State to the total rural population of the entire country. I have a table which shows the amount that each State will receive, assuming that this bill will go into effect in 1914, and if there is no objection I will put that table in the record. It indicates definitely and fully just what the total appropriation for each year will be. It might be of interest to cite one or two States. Alabama, for example, has a rural population of 1,767,662. It will receive the first year \$10,000. The next year it will receive \$10,000 plus the apportionment, making the total \$20,745.91. At the end of 1919, when there must necessarily be another revision, owing to the census, the State of Alabama will be receiving from the Federal Government \$63,729 for this work, and the State of Alabama will be putting in an equal amount. At the end of nine years there will be a grand total of \$3,000,000 going into the States for this work, and the States will be putting in an equal amount, making \$6,000,000 in all.

Mr. HEFLIN. Please put that table in the record.

Dr. GALLOWAY. Yes, sir; I will put it in the record.

(The table referred to by Dr. Galloway follows.)

LEYER BILL.

Payments to be made annually to each State, based upon the census of 1910, and assuming that the bill becomes a law in the fiscal year 1914.

State.	1914			1915			1916			1917		
	Rural population (census of 1910).	Annual appropriation of \$480,000 of which \$10,000 is to be paid to each State (assuming that bill becomes a law in the fiscal year 1914).	Total.	Annual appropriation of \$480,000 of which \$10,000 is to be paid to each State.	Additional appropriation of \$300,000, to be paid each State in the proportion which its rural population bears to total population of the United States.	Total.	Annual appropriation of \$480,000 of which \$10,000 is to be paid to each State.	Additional appropriation of \$300,000, to be paid each State in the proportion which its rural population bears to total population of the United States.	Total.	Annual appropriation of \$480,000 of which \$10,000 is to be paid to each State.	Additional appropriation of \$300,000, to be paid each State in the proportion which its rural population bears to total population of the United States.	Total.
Alabama.....	1,787,662	\$10,000.00	\$10,000.00	\$10,745.91	\$20,745.91	\$31,491.82	\$10,000.00	\$21,491.82	\$31,491.82	\$10,000.00	\$32,237.73	\$42,237.73
Arizona.....	141,094	10,000.00	10,000.00	857.73	10,857.73	11,715.46	10,000.00	1,715.46	11,715.46	10,000.00	2,573.19	12,573.19
Arkansas.....	1,371,708	10,000.00	10,000.00	8,339.19	18,339.19	16,678.38	10,000.00	16,678.38	26,678.38	10,000.00	25,017.57	36,017.57
California.....	907,810	10,000.00	10,000.00	5,518.74	15,518.74	21,037.48	10,000.00	11,037.48	31,074.96	10,000.00	16,556.22	27,556.22
Colorado.....	394,184	10,000.00	10,000.00	2,396.31	12,396.31	4,792.62	10,000.00	4,792.62	14,792.62	10,000.00	7,188.93	17,188.93
Connecticut.....	114,917	10,000.00	10,000.00	698.61	10,698.61	1,397.22	10,000.00	1,397.22	11,397.22	10,000.00	2,096.83	12,096.83
Delaware.....	105,237	10,000.00	10,000.00	639.75	10,639.75	1,279.50	10,000.00	1,279.50	11,279.50	10,000.00	1,919.25	11,919.25
Florida.....	533,539	10,000.00	10,000.00	3,243.48	13,243.48	6,486.96	10,000.00	6,486.96	16,486.96	10,000.00	9,780.44	19,780.44
Georgia.....	2,070,471	10,000.00	10,000.00	12,596.74	22,596.74	25,173.48	10,000.00	25,173.48	35,173.48	10,000.00	27,760.22	47,760.22
Idaho.....	255,696	10,000.00	10,000.00	1,554.42	11,554.42	3,108.84	10,000.00	3,108.84	13,108.84	10,000.00	4,663.26	14,663.26
Illinois.....	2,161,662	10,000.00	10,000.00	13,141.12	23,141.12	26,282.24	10,000.00	26,282.24	36,282.24	10,000.00	39,423.36	49,423.36
Indiana.....	1,557,041	10,000.00	10,000.00	9,465.51	19,465.51	18,931.02	10,000.00	18,931.02	28,931.02	10,000.00	28,396.53	38,396.53
Iowa.....	1,544,717	10,000.00	10,000.00	9,390.60	19,390.60	28,781.20	10,000.00	28,781.20	38,781.20	10,000.00	38,171.80	48,171.80
Kansas.....	1,197,159	10,000.00	10,000.00	7,277.73	17,277.73	24,555.46	10,000.00	24,555.46	34,555.46	10,000.00	31,833.19	41,833.19
Kentucky.....	1,734,463	10,000.00	10,000.00	10,544.10	20,544.10	21,088.20	10,000.00	21,088.20	31,088.20	10,000.00	31,632.30	41,632.30
Louisiana.....	1,159,872	10,000.00	10,000.00	7,051.05	17,051.05	14,102.10	10,000.00	14,102.10	24,102.10	10,000.00	21,153.15	31,153.15
Maine.....	380,928	10,000.00	10,000.00	2,194.14	12,194.14	4,388.28	10,000.00	4,388.28	14,388.28	10,000.00	6,582.42	16,582.42
Maryland.....	637,154	10,000.00	10,000.00	3,873.36	13,873.36	7,746.72	10,000.00	7,746.72	17,746.72	10,000.00	11,620.08	21,620.08
Massachusetts.....	241,049	10,000.00	10,000.00	1,465.38	11,465.38	2,930.76	10,000.00	2,930.76	12,930.76	10,000.00	4,396.14	14,396.14
Michigan.....	1,483,129	10,000.00	10,000.00	9,016.20	19,016.20	18,032.40	10,000.00	18,032.40	28,032.40	10,000.00	27,048.60	37,048.60

*Payments to be made annually to each State, based upon the census of 1910, and assuming that the bill becomes a law in the fiscal year 1914—Continued.*

State.	1914		1915		1916		1917		Total.
	Annual appropriation of \$480,000, of which \$10,000 is to be paid to each State (assuming that bill becomes a law in the fiscal year 1914).	Total.	Annual appropriation of \$480,000, of which \$10,000 is to be paid to each State.	Additional appropriation of \$80,000, to be paid in the portion which rural population bears to total population of the United States.	Total.	Annual appropriation of \$480,000, of which \$10,000 is to be paid to each State.	Additional appropriation of \$80,000, to be paid in the portion which rural population bears to total population of the United States.	Total.	
Rural population (census of 1910).									
Minnesota.....	\$1,225,414	\$10,000.00	\$10,000.00	\$7,449.48	\$17,449.48	\$10,000.00	\$14,893.96	\$24,893.96	\$32,348.44
Mississippi.....	1,589,803	10,000.00	10,000.00	9,694.68	19,694.68	10,000.00	19,329.36	29,329.36	38,994.04
Missouri.....	1,894,518	10,000.00	10,000.00	11,517.09	21,517.09	10,000.00	23,034.18	33,034.18	44,551.27
Montana.....	242,633	10,000.00	10,000.00	1,475.01	11,475.01	10,000.00	2,860.02	12,860.02	14,426.03
Nebraska.....	881,362	10,000.00	10,000.00	5,357.94	15,357.94	10,000.00	10,715.88	20,715.88	26,073.82
Nevada.....	68,508	10,000.00	10,000.00	416.46	10,416.46	10,000.00	832.92	10,832.92	11,249.38
New Hampshire.....	175,473	10,000.00	10,000.00	1,066.71	11,066.71	10,000.00	2,133.42	12,133.42	13,200.13
New Jersey.....	629,967	10,000.00	10,000.00	3,829.62	13,829.62	10,000.00	7,689.24	17,689.24	21,488.86
New Mexico.....	290,730	10,000.00	10,000.00	1,706.61	11,706.61	10,000.00	3,413.22	13,413.22	15,119.83
New York.....	1,928,120	10,000.00	10,000.00	11,721.86	21,721.86	10,000.00	23,442.72	33,442.72	46,164.08
North Carolina.....	1,887,813	10,000.00	10,000.00	11,476.32	21,476.32	10,000.00	22,852.64	32,852.64	44,428.96
North Dakota.....	513,820	10,000.00	10,000.00	3,123.60	13,123.60	10,000.00	6,247.20	16,247.20	19,370.80
Ohio.....	2,101,978	10,000.00	10,000.00	12,778.26	22,778.26	10,000.00	26,556.52	36,556.52	48,334.78
Oklahoma.....	1,337,000	10,000.00	10,000.00	8,127.84	18,127.84	10,000.00	16,265.68	26,265.68	34,383.52
Oregon.....	366,706	10,000.00	10,000.00	2,232.18	12,232.18	10,000.00	4,446.36	14,446.36	16,069.64
Pennsylvania.....	3,034,442	10,000.00	10,000.00	18,446.89	28,446.89	10,000.00	30,893.78	40,893.78	55,340.67
Rhode Island.....	17,956	10,000.00	10,000.00	109.17	10,109.17	10,000.00	212.34	10,212.34	10,327.51
South Carolina.....	1,290,568	10,000.00	10,000.00	7,845.57	17,845.57	10,000.00	16,691.14	26,691.14	33,536.71
South Dakota.....	507,215	10,000.00	10,000.00	3,083.43	13,083.43	10,000.00	6,168.86	16,168.86	19,260.29
Tennessee.....	1,743,744	10,000.00	10,000.00	10,600.50	20,600.50	10,000.00	21,201.00	31,201.00	41,801.50

Texas.....	2,938,498	10,000.00	10,000.00	10,000.00	17,984.83	27,984.83	35,982.66	45,982.66	10,000.00	53,984.49	63,984.49
Utah.....	200,417	10,000.00	10,000.00	10,000.00	1,213.86	11,213.86	2,436.72	12,436.72	10,000.00	3,655.03	13,655.03
Vermont.....	187,013	10,000.00	10,000.00	10,000.00	1,136.88	11,136.88	2,273.76	12,273.76	10,000.00	3,410.64	13,410.64
Virginia.....	1,585,083	10,000.00	10,000.00	10,000.00	9,635.97	19,635.97	19,271.94	29,271.94	10,000.00	29,977.91	39,977.91
Washington.....	1,536,460	10,000.00	10,000.00	10,000.00	3,261.24	13,261.24	6,522.43	16,522.43	10,000.00	9,783.72	19,783.72
West Virginia.....	992,877	10,000.00	10,000.00	10,000.00	6,035.85	16,035.85	12,071.70	22,071.70	10,000.00	18,107.55	28,107.55
Wisconsin.....	1,329,540	10,000.00	10,000.00	10,000.00	8,082.48	18,082.48	16,164.96	26,164.96	10,000.00	24,247.44	34,247.44
Wyoming.....	102,744	10,000.00	10,000.00	10,000.00	624.60	10,624.60	1,246.20	11,246.20	10,000.00	1,873.80	11,873.80
Total.....	49,346,883	480,000.00	480,000.00	480,000.00	300,000.00	780,000.00	600,000.00	1,080,000.00	480,000.00	900,000.00	1,380,000.00

*Payments to be made annually to each State, based upon the census of 1910, and assuming that the bill becomes a law in the fiscal year 1914—Continued.*

State.	Rural population (census of 1910).	1918			1919			1920			1921		
		Annual appropriation of \$100,000 to be paid to each State.	Additional appropriation of \$300,000 making \$1,200,000 to be paid to each State in the proportion which its rural population bears to total population of the United States.	Total.	Annual appropriation of \$100,000 to be paid to each State.	Additional appropriation of \$300,000 making \$1,500,000 to be paid to each State in the proportion which its rural population bears to total population of the United States.	Total.	Annual appropriation of \$100,000 to be paid to each State.	Additional appropriation of \$300,000 making \$1,800,000 to be paid to each State in the proportion which its rural population bears to total population of the United States.	Total.	Annual appropriation of \$100,000 to be paid to each State.	Additional appropriation of \$300,000 making \$2,100,000 to be paid to each State in the proportion which its rural population bears to total population of the United States.	Total.
Alabama.....	1,767,662	\$10,000.00	\$42,983.64	\$52,983.64	\$10,000.00	\$53,720.55	\$63,720.55	\$10,000.00	\$64,475.46	\$74,475.46	\$10,000.00	\$75,221.37	\$85,221.37
Arizona.....	1,411,064	10,000.00	3,430.92	13,430.92	10,000.00	4,288.63	14,288.63	10,000.00	5,146.38	15,146.38	10,000.00	6,004.11	16,004.11
Arkansas.....	1,371,708	10,000.00	33,334.76	43,334.76	10,000.00	41,963.93	51,963.93	10,000.00	50,035.44	60,035.44	10,000.00	58,574.53	68,574.53
California.....	3,071,810	10,000.00	22,074.90	32,074.90	10,000.00	27,983.70	37,983.70	10,000.00	33,112.44	43,112.44	10,000.00	38,531.18	48,531.18
Colorado.....	394,184	10,000.00	9,385.24	19,385.24	10,000.00	11,981.55	21,981.55	10,000.00	14,377.86	24,377.86	10,000.00	16,774.17	26,774.17
Connecticut.....	114,917	10,000.00	2,704.44	12,704.44	10,000.00	3,493.05	13,493.05	10,000.00	4,191.66	14,191.66	10,000.00	4,900.27	14,900.27
Delaware.....	103,227	10,000.00	2,559.00	12,559.00	10,000.00	3,198.75	13,198.75	10,000.00	3,838.50	13,838.50	10,000.00	4,478.25	14,478.25
Florida.....	533,539	10,000.00	12,973.92	22,973.92	10,000.00	19,217.40	29,217.40	10,000.00	25,460.88	35,460.88	10,000.00	31,704.36	41,704.36
Georgia.....	2,070,471	10,000.00	50,346.96	60,346.96	10,000.00	62,983.70	72,983.70	10,000.00	75,520.44	85,520.44	10,000.00	88,107.18	98,107.18
I Idaho.....	253,666	10,000.00	6,217.68	16,217.68	10,000.00	7,772.10	17,772.10	10,000.00	9,326.52	19,326.52	10,000.00	10,880.94	20,880.94
Illinois.....	2,161,662	10,000.00	52,564.48	62,564.48	10,000.00	65,705.60	75,705.60	10,000.00	78,846.72	88,846.72	10,000.00	91,987.84	101,987.84
Indiana.....	1,567,041	10,000.00	37,562.04	47,562.04	10,000.00	47,327.55	57,327.55	10,000.00	56,793.06	66,793.06	10,000.00	66,258.57	76,258.57
Iowa.....	1,544,717	10,000.00	37,562.40	47,562.40	10,000.00	46,363.60	56,363.60	10,000.00	55,345.60	65,345.60	10,000.00	64,327.60	74,327.60
Kansas.....	1,397,159	10,000.00	28,110.92	38,110.92	10,000.00	36,368.65	46,368.65	10,000.00	44,630.38	54,630.38	10,000.00	62,894.11	72,894.11
Kentucky.....	1,734,463	10,000.00	52,176.40	62,176.40	10,000.00	63,784.50	73,784.50	10,000.00	85,392.60	95,392.60	10,000.00	107,000.70	117,000.70
Louisiana.....	1,189,872	10,000.00	28,204.20	38,204.20	10,000.00	35,255.25	45,255.25	10,000.00	42,306.30	52,306.30	10,000.00	49,357.35	59,357.35
Maine.....	360,928	10,000.00	1,776.50	11,776.50	10,000.00	2,070.70	12,070.70	10,000.00	2,364.90	13,364.90	10,000.00	2,659.10	13,659.10
Maryland.....	637,164	10,000.00	15,183.44	25,183.44	10,000.00	19,368.80	29,368.80	10,000.00	23,554.16	33,554.16	10,000.00	27,739.52	37,739.52
Massachusetts.....	241,049	10,000.00	3,861.52	13,861.52	10,000.00	4,732.80	14,732.80	10,000.00	5,604.08	16,604.08	10,000.00	6,475.36	17,475.36
Michigan.....	1,463,128	10,000.00	46,064.80	56,064.80	10,000.00	55,081.00	65,081.00	10,000.00	64,097.20	74,097.20	10,000.00	83,113.40	93,113.40
Minnesota.....	1,235,414	10,000.00	29,797.92	39,797.92	10,000.00	37,247.40	47,247.40	10,000.00	44,698.88	54,698.88	10,000.00	62,146.36	72,146.36
Mississippi.....	1,589,503	10,000.00	38,668.72	48,668.72	10,000.00	49,323.40	59,323.40	10,000.00	57,988.08	67,988.08	10,000.00	67,652.76	77,652.76



Missouri.....	1,384,518	10,000.00	16,068.36	56,068.36	10,000.00	57,695.49	67,538.45	10,000.00	69,102.54	79,102.54	10,000.00	89,019.09	90,619.09
Montana.....	242,638	10,000.00	16,900.04	16,900.04	10,000.00	7,375.06	17,375.06	10,000.00	8,960.06	18,960.06	10,000.00	10,238.07	20,238.07
Nebraska.....	881,892	10,000.00	21,431.76	31,431.76	10,000.00	26,786.70	36,786.70	10,000.00	32,147.64	42,147.64	10,000.00	37,406.56	47,406.56
Nevada.....	68,906	10,000.00	1,665.84	11,665.84	10,000.00	2,082.90	12,082.90	10,000.00	2,468.76	12,468.76	10,000.00	2,918.22	12,918.22
N. Hampshire	178,473	10,000.00	4,266.84	14,266.84	10,000.00	6,333.63	16,333.63	10,000.00	6,400.26	16,400.26	10,000.00	7,408.91	17,408.91
New Jersey.....	629,677	10,000.00	16,318.48	26,318.48	10,000.00	19,148.10	29,148.10	10,000.00	22,977.72	32,977.72	10,000.00	25,817.84	35,817.84
New Mexico.....	289,720	10,000.00	6,896.44	16,896.44	10,000.00	8,633.06	18,633.06	10,000.00	10,236.66	20,236.66	10,000.00	11,946.27	21,946.27
New York.....	1,028,120	10,000.00	46,888.44	56,888.44	10,000.00	68,606.80	68,606.80	10,000.00	70,328.16	80,328.16	10,000.00	82,049.52	92,049.52
N. C.....	1,857,612	10,000.00	46,905.28	56,905.28	10,000.00	57,381.60	67,381.60	10,000.00	68,857.92	78,857.92	10,000.00	80,334.24	90,334.24
N. Dak.....	211,620	10,000.00	12,464.40	22,464.40	10,000.00	16,618.00	26,618.00	10,000.00	18,741.60	28,741.60	10,000.00	21,865.20	31,865.20
Ohio.....	2,101,978	10,000.00	61,113.64	71,113.64	10,000.00	68,991.80	78,991.80	10,000.00	76,069.56	86,069.56	10,000.00	89,447.83	99,447.83
Oklahoma.....	1,837,860	10,000.00	38,611.36	48,611.36	10,000.00	40,636.20	50,636.20	10,000.00	48,767.04	58,767.04	10,000.00	56,894.88	66,894.88
Oreg.....	365,766	10,000.00	8,893.72	18,893.72	10,000.00	11,115.90	21,115.90	10,000.00	13,338.08	23,338.08	10,000.00	15,562.26	25,562.26
Pa.....	2,664,412	10,000.00	78,787.56	88,787.56	10,000.00	99,224.45	102,224.45	10,000.00	110,661.34	120,661.34	10,000.00	129,128.23	139,128.23
R. I.....	17,866	10,000.00	486.68	10,486.68	10,000.00	545.85	10,545.85	10,000.00	655.02	10,655.02	10,000.00	764.19	10,764.19
S. C.....	1,350,866	10,000.00	31,882.28	41,882.28	10,000.00	39,227.85	49,227.85	10,000.00	47,073.43	57,073.43	10,000.00	64,918.99	74,918.99
S. Dak.....	67,215	10,000.00	12,323.72	22,323.72	10,000.00	16,417.15	26,417.15	10,000.00	18,000.68	28,000.68	10,000.00	21,684.01	31,684.01
Tenn.....	1,745,744	10,000.00	42,402.00	52,402.00	10,000.00	53,072.50	63,072.50	10,000.00	68,033.00	78,033.00	10,000.00	74,203.50	84,203.50
Texas.....	2,855,495	10,000.00	71,869.32	81,869.32	10,000.00	89,924.19	99,924.19	10,000.00	107,908.98	117,908.98	10,000.00	125,893.81	135,893.81
Utah.....	200,477	10,000.00	4,878.44	14,878.44	10,000.00	6,091.80	16,091.80	10,000.00	7,310.26	17,310.26	10,000.00	8,528.62	18,528.62
Vermont.....	187,613	10,000.00	4,267.63	14,267.63	10,000.00	5,684.40	15,684.40	10,000.00	6,821.28	16,821.28	10,000.00	7,968.16	17,968.16
Virginia.....	1,854,082	10,000.00	85,898.88	95,898.88	10,000.00	98,179.85	108,179.85	10,000.00	107,815.83	117,815.83	10,000.00	127,461.79	137,461.79
Washington.....	636,460	10,000.00	13,044.96	23,044.96	10,000.00	16,306.20	26,306.20	10,000.00	19,567.44	29,567.44	10,000.00	22,828.68	32,828.68
West Virginia.....	992,877	10,000.00	24,143.40	34,143.40	10,000.00	30,179.25	40,179.25	10,000.00	36,215.10	46,215.10	10,000.00	42,250.95	52,250.95
Wisconsin.....	1,229,540	10,000.00	83,228.92	93,228.92	10,000.00	90,412.40	100,412.40	10,000.00	98,494.88	108,494.88	10,000.00	106,577.36	116,577.36
Wyoming.....	102,744	10,000.00	3,468.40	12,468.40	10,000.00	3,128.00	12,128.00	10,000.00	3,747.60	13,747.60	10,000.00	4,372.20	14,372.20
Total.....	49,345,585	499,400.00	1,380,660.00	1,680,000.00	480,000.00	1,809,000.00	1,980,000.00	480,000.00	1,800,000.00	2,280,000.00	480,000.00	2,100,000.00	2,680,000.00

*Payments to be made annually to each State, based upon the census of 1910, and assuming that the bill becomes a law in the fiscal year 1914—Continued.*

State	Rural population (census of 1910).	1922			1923			1924.			Grand total for 10 years, including \$490,000 additional for the first fiscal year (1914), of which \$10,000 is to be paid to each State.	Annual appropriation of \$490,000, of which \$10,000 is to be paid to each State.	Annual appropriation of \$3,000,000 to be paid in the proportion of which its rural population bears to the total population of the United States.	Total annually after the fiscal year 1924.
		Annual appropriation of \$490,000, of which \$10,000 is to be paid to each State.	Additional appropriation of \$300,000, making \$2,400,000 to be paid in the proportion of which its rural population bears to the total population of the United States.	Total.	Annual appropriation of \$490,000, of which \$10,000 is to be paid to each State.	Additional appropriation of \$300,000, making \$2,700,000 to be paid in the proportion of which its rural population bears to the total population of the United States.	Total.							
Ala.....	1,767,662	\$10,000.00	\$85,967.28	\$95,967.28	\$10,000.00	\$96,713.19	\$106,713.19	\$10,000.00	\$107,459.10	\$117,459.10	\$701,028.05	\$10,000.00	\$107,459.10	\$117,459.10
Ark.....	141,094	10,000.00	6,951.64	16,951.64	10,000.00	7,119.57	17,119.57	10,000.00	8,577.30	18,577.30	157,176.15	10,000.00	8,577.30	19,577.30
ATX.....	1,371,768	10,000.00	66,713.62	76,713.62	10,000.00	75,662.71	85,662.71	10,000.00	83,391.90	93,391.90	568,655.45	10,000.00	83,391.90	93,391.90
Cal.....	907,810	10,000.00	41,146.92	51,146.92	10,000.00	49,668.66	59,668.66	10,000.00	55,187.40	65,187.40	415,550.70	10,000.00	55,187.40	65,187.40
Colo.....	384,184	10,000.00	19,170.48	29,170.48	10,000.00	21,666.79	31,666.79	10,000.00	23,963.10	33,963.10	241,797.06	10,000.00	23,963.10	33,963.10
Conn.....	114,917	10,000.00	5,588.88	15,588.88	10,000.00	6,267.49	16,267.49	10,000.00	6,986.10	16,986.10	148,423.55	10,000.00	6,986.10	16,986.10
Del.....	106,237	10,000.00	5,118.00	15,118.00	10,000.00	5,757.75	15,757.75	10,000.00	6,397.50	16,397.50	145,186.26	10,000.00	6,397.50	16,397.50
Fla.....	533,539	10,000.00	26,947.84	36,947.84	10,000.00	29,191.32	39,191.32	10,000.00	32,434.80	42,434.80	288,391.40	10,000.00	32,434.80	42,434.80
Ga.....	2,070,471	10,000.00	100,663.92	110,663.92	10,000.00	113,280.69	123,280.69	10,000.00	126,897.40	136,897.40	802,270.70	10,000.00	126,897.40	136,897.40
Iaho.....	286,696	10,000.00	12,435.36	22,435.36	10,000.00	13,989.78	23,989.78	10,000.00	15,544.20	25,544.20	196,463.10	10,000.00	15,544.20	25,544.20
Ill.....	2,161,662	10,000.00	105,128.96	115,128.96	10,000.00	118,270.68	128,270.68	10,000.00	131,411.20	141,411.20	832,761.60	10,000.00	131,411.20	141,411.20
Ind.....	1,557,041	10,000.00	75,724.08	85,724.08	10,000.00	86,199.59	96,199.59	10,000.00	94,655.10	104,655.10	630,603.05	10,000.00	94,655.10	104,655.10
Iowa.....	1,544,717	10,000.00	83,124.80	93,124.80	10,000.00	84,515.40	94,515.40	10,000.00	93,908.00	103,908.00	626,493.00	10,000.00	93,908.00	103,908.00
Kans.....	1,197,159	10,000.00	58,221.84	68,221.84	10,000.00	65,668.57	75,668.57	10,000.00	72,777.30	82,777.30	510,273.15	10,000.00	72,777.30	82,777.30
Ky.....	1,734,463	10,000.00	84,352.80	94,352.80	10,000.00	94,896.80	104,896.80	10,000.00	105,441.00	115,441.00	689,425.50	10,000.00	105,441.00	115,441.00
La.....	1,189,872	10,000.00	55,408.40	65,408.40	10,000.00	63,459.45	73,459.45	10,000.00	70,510.50	80,510.50	497,807.75	10,000.00	70,510.50	80,510.50
Me.....	300,125	10,000.00	17,553.12	27,553.12	10,000.00	19,747.26	29,747.26	10,000.00	21,941.40	31,941.40	260,677.70	10,000.00	21,941.40	31,941.40
Mo.....	337,154	10,000.00	20,968.88	30,968.88	10,000.00	34,860.24	44,860.24	10,000.00	38,733.60	48,733.60	323,634.80	10,000.00	38,733.60	48,733.60
Md.....	241,049	10,000.00	11,722.04	21,722.04	10,000.00	13,188.43	23,188.43	10,000.00	14,663.80	24,663.80	190,696.90	10,000.00	14,663.80	24,663.80
Mich.....	1,483,129	10,000.00	72,129.60	82,129.60	10,000.00	81,146.80	91,146.80	10,000.00	90,163.00	100,163.00	605,891.00	10,000.00	90,163.00	100,163.00

Minn.....	1,225,414	10,000.00	69,595.94	10,000.00	67,045.83	77,045.83	10,000.00	74,494.80	519,721.40	10,000.00	74,494.80	84,494.80	54,494.80
Miss.....	1,580,000	10,000.00	77,317.44	10,000.00	66,982.12	66,982.12	10,000.00	66,982.12	106,546.80	10,000.00	66,982.12	106,546.80	106,546.80
Mo.....	1,804,018	10,000.00	102,126.72	10,000.00	103,633.81	113,633.81	10,000.00	113,633.81	743,430.55	10,000.00	113,633.81	115,170.90	126,170.90
Mont.....	1,242,323	10,000.00	21,800.06	10,000.00	13,275.09	23,275.09	10,000.00	14,750.10	191,126.58	10,000.00	14,750.10	14,750.10	24,750.10
Neb.....	881,362	10,000.00	52,863.52	10,000.00	48,221.46	58,221.46	10,000.00	53,579.40	404,686.70	10,000.00	53,579.40	53,579.40	63,579.40
Nev.....	68,006	10,000.00	13,331.05	10,000.00	3,748.14	13,748.14	10,000.00	4,164.00	132,905.30	10,000.00	4,164.00	14,164.00	14,164.00
N.H.....	176,473	10,000.00	8,533.68	10,000.00	9,600.30	19,600.30	10,000.00	10,667.10	168,669.05	10,000.00	10,667.10	20,667.10	20,667.10
N.I.....	630,967	10,000.00	30,682.90	10,000.00	34,466.58	44,466.58	10,000.00	35,206.10	320,629.10	10,000.00	35,206.10	38,206.10	48,206.10
N.J.....	280,730	10,000.00	23,603.86	10,000.00	15,359.49	23,359.49	10,000.00	27,094.10	203,863.55	10,000.00	27,094.10	17,094.10	27,094.10
N.Mex.....	1,628,120	10,000.00	103,770.88	10,000.00	105,492.24	115,492.24	10,000.00	117,213.60	754,674.80	10,000.00	117,213.60	117,213.60	127,213.60
N.Y.....	1,867,613	10,000.00	91,810.56	10,000.00	103,286.88	113,286.88	10,000.00	114,763.20	741,197.60	10,000.00	114,763.20	114,763.20	124,763.20
N.C.....	1,613,820	10,000.00	24,988.80	10,000.00	28,112.40	38,112.40	10,000.00	31,286.00	281,708.00	10,000.00	31,286.00	31,286.00	41,286.00
N.Dak.....	2,101,978	10,000.00	102,226.08	10,000.00	115,004.34	125,004.34	10,000.00	127,762.60	812,904.30	10,000.00	127,762.60	127,762.60	137,762.60
Ohio.....	1,837,000	10,000.00	65,023.72	10,000.00	73,150.46	83,150.46	10,000.00	81,278.40	557,031.20	10,000.00	81,278.40	91,278.40	91,278.40
Ore.....	364,704	10,000.00	17,768.44	10,000.00	20,008.62	30,008.62	10,000.00	32,231.80	232,274.90	10,000.00	32,231.80	32,231.80	32,231.80
Pa.....	3,034,422	10,000.00	147,575.12	10,000.00	166,022.01	176,022.01	10,000.00	184,468.90	124,578.95	10,000.00	184,468.90	184,468.90	194,468.90
R.I.....	1,176,656	10,000.00	873.36	10,000.00	982.83	1,082.83	10,000.00	1,091.70	116,004.35	10,000.00	1,091.70	1,091.70	11,091.70
S.C.....	1,260,638	10,000.00	62,764.56	10,000.00	70,610.13	80,610.13	10,000.00	78,455.70	541,606.35	10,000.00	78,455.70	88,455.70	88,455.70
S.Dak.....	1,807,315	10,000.00	34,667.44	10,000.00	37,750.87	47,750.87	10,000.00	30,834.30	279,588.65	10,000.00	30,834.30	30,834.30	40,834.30
Tenn.....	1,743,744	10,000.00	64,304.00	10,000.00	96,404.60	106,404.60	10,000.00	108,006.00	693,027.60	10,000.00	108,006.00	108,006.00	118,006.00
Texas.....	2,958,436	10,000.00	153,878.64	10,000.00	161,863.47	171,863.47	10,000.00	179,848.30	109,165.65	10,000.00	179,848.30	189,848.30	189,848.30
Utah.....	200,417	10,000.00	9,746.86	10,000.00	10,965.24	20,965.24	10,000.00	12,183.60	177,009.80	10,000.00	12,183.60	22,183.60	22,183.60
Vermont.....	187,013	10,000.00	9,065.04	10,000.00	10,231.92	20,231.92	10,000.00	11,368.80	172,528.40	10,000.00	11,368.80	21,368.80	21,368.80
Virginia.....	1,585,083	10,000.00	77,087.76	10,000.00	86,723.73	96,723.73	10,000.00	96,359.70	639,078.35	10,000.00	96,359.70	106,359.70	106,359.70
Washington	536,460	10,000.00	26,080.92	10,000.00	29,351.16	39,351.16	10,000.00	22,612.40	280,368.20	10,000.00	22,612.40	32,612.40	32,612.40
W.Virginia	992,877	10,000.00	48,286.80	10,000.00	54,322.65	64,322.65	10,000.00	60,359.50	441,971.75	10,000.00	60,359.50	70,359.50	70,359.50
Wisconsin.....	1,229,540	10,000.00	64,659.84	10,000.00	72,742.32	82,742.32	10,000.00	80,824.80	554,536.40	10,000.00	80,824.80	90,824.80	90,824.80
Wyoming.....	1,102,744	10,000.00	4,806.80	10,000.00	5,621.40	15,621.40	10,000.00	6,246.00	144,353.00	10,000.00	6,246.00	6,246.00	16,246.00
Total.....	49,248,883	480,000.00	2,880,000.00	480,000.00	2,700,000.00	3,180,000.00	480,000.00	3,480,000.00	21,780,000.00	480,000.00	3,480,000.00	3,480,000.00	3,480,000.00

Mr. McLAUGHLIN. Is not that \$3,000,000 besides the \$10,000 a year?

Dr. GALLOWAY. Yes, sir.

Mr. McLAUGHLIN. \$3,480,000?

Dr. GALLOWAY. Yes; after the nine years.

Mr. HAWLEY. Why were not the Territories included—Hawaii, for instance?

Dr. GALLOWAY. I am not able to answer that question, Mr. Hawley. The outlying Territories, Hawaii, Porto Rico, and Guam, have never been included in any of these measures for educational work.

Mr. SLOAN. Is Alaska included?

Dr. GALLOWAY. No; these Territories are specifically provided for in the regular appropriation bill for the Department of Agriculture by funds appropriated for the Office of Experiment Stations, and the educational affairs of these outlying stations are administered by the Office of Experiment Stations.

Mr. HAWLEY. Do you think that they will be adequately provided for when this bill goes into effect?

Dr. GALLOWAY. Yes, sir. One of the reasons why they have never been brought within the same category as the States is because there has been some uncertainty as to the permanency of certain types of agriculture at those places. We have, however, a well-established station at Porto Rico, something like \$25,000 or \$30,000 a year being spent, and Hawaii has a well-established station, where about the same amount is spent, while \$35,000 is being spent in Alaska.

Mr. HAWLEY. In your judgment, they will be as well provided for by the Federal Government as the States are in this bill?

Dr. GALLOWAY. Yes; I think so.

There is a proviso in the third section to which attention should be called. I will read it:

*Provided further, That before the beginning of each fiscal year projects setting forth the proposed plans for work to be carried on under this act shall be submitted by the proper officials of each college and approved by the Secretary of Agriculture before the funds herein appropriated shall become available to such college for that fiscal year.*

This simply stabilizes the whole work, it would seem, and while it does not place within the Secretary's hands any restrictive power, it does make it practicable to unify the work of having projects submitted and agreed upon before they are actually certified by the Secretary of Agriculture.

Section 4 of the bill provides:

That there shall be in the Department of Agriculture a Director of Cooperative Agriculture Extension Work, to be appointed by the Secretary of Agriculture, who shall report directly to him. The salary of such director shall be such as may be provided for by law from time to time.

It would seem necessary to have in the department an office that would act as the clearing house for the work. It was not deemed necessary or advisable to include in this bill an item for the financing of that office, believing that this could be cared for in the regular appropriation bill for the department. As a matter of fact, the present work of the farmers' cooperative demonstration movement and the farm-management work, if reorganized and readjusted, would fit logically into this place, and it will only be necessary to

have some minor readjustment by the Secretary himself, provided authority is given for the establishment of such an office and such a directorship.

Mr. HAWLEY. It is not necessary to provide for the office force?

Dr. GALLOWAY. No; that will be provided for in the regular department appropriation bill, just as is done in other instances.

Mr. SLOAN. Speaking of the rural population, does it contemplate those living in the country or those living in the country and within municipalities of less than 2,500, which the census seems to classify as rural?

Dr. GALLOWAY. This bill simply follows the practice of the census in that respect.

Mr. SLOAN. The census recognizes municipalities under 2,500 as rural?

Dr. GALLOWAY. Yes.

Mr. HAUGEN. Who has jurisdiction of the distribution of funds appropriated under the Morrill Act?

Dr. GALLOWAY. The Secretary of the Treasury has actual jurisdiction, but so far as the Hatch and Adams Acts are concerned, unless the certification is made by the Secretary of Agriculture as to the proper use of those funds, the Secretary of the Treasury will not honor the certificate.

Mr. HAUGEN. Why should not this come under the same?

Dr. GALLOWAY. It does, later on.

Mr. HAUGEN. Why this director? It does not seem necessary to appoint a director.

Dr. GALLOWAY. The director will have very little to do with the funds. The director's work will lie in keeping in touch with the great mass of detail which will necessarily follow the putting into effect of such a bill, in organizing the work, and carrying it through. The funds are specifically provided for in the bill itself, but we will need a clearing house, just as we have a clearing house in the Office of Experiment Stations.

Mr. HAUGEN. As a result, we will have one man in charge of the experiment stations, one man in charge of this work, and whenever it is necessary to look after matters, two men will be sent out in place of one, one from each division?

Dr. GALLOWAY. You may have that for a little while, but the Secretary has already a reorganization in mind and we have all that worked out.

Mr. HAUGEN. Then there will be no extension, but rather a saving along that line. Undoubtedly there is a good deal of duplication of work and expenditure of money on account of duplication in sending out two men to do work one man could do. It seems to me that that is simply duplication of work?

Dr. GALLOWAY. Not at all.

Mr. HAUGEN. There would be two departments or divisions, whatever the agency might be, and each division would send men into the same locality?

Dr. GALLOWAY. I do not look at it that way.

Mr. HAUGEN. That is what it would amount to?

Dr. GALLOWAY. No; we have thrashed that out a good many times before, and I think we have made it plain to the committee that we are not sending out two men to do the same kind of work.

Mr. HAUGEN. Not the same kind, but practically the same, at the same places—work which one man could do. I am not criticizing the department. It is the fault of Congress if the fault of anybody.

Dr. GALLOWAY. What we aim for is a centralization of effort rather than a decentralization of effort.

Mr. HAUGEN. Then, why provide for these additional officers?

Dr. GALLOWAY. How could we handle all this work unless we have such an office?

Mr. HAUGEN. I am absolutely certain that your bureau could handle it as well as an additional bureau, or that the Office of Experiment Stations could. I wish to avoid the additional expense of sending two men to do the work that one man can do.

Dr. GALLOWAY. I do not think that point is well taken. There will be no additional expense. It is absolutely necessary to have a neutral organization to handle this work, because it covers all phases of the work in the Department of Agriculture and in the States.

Mr. HAUGEN. The work is to be handled largely by the States?

Dr. GALLOWAY. Yes; but, as you understand, the department is now most active and energetic in extension work. It is expending now something like \$900,000 in demonstration work alone, and in order to make that work effective and to coordinate that work it is going to be absolutely necessary to have some coordinating force in the department.

Mr. HAUGEN. Is it all under the Bureau of Plant Industry?

Dr. GALLOWAY. No; it is scattered all through the department.

Mr. HAUGEN. It should not be; it should be in one place.

Dr. GALLOWAY. That is exactly what we are trying to do.

Mr. HAUGEN. Not in this bill?

Dr. GALLOWAY. Yes, sir.

Mr. HAUGEN. Not in the sense you have referred to, because you establish a new office.

Dr. GALLOWAY. That office is for the purpose of doing this coordinating work. Now, the overhead charges are greater than they should be, showing an absolute need for a centralization of effort in that direction. The aim of this bill is to bring the demonstration work within proper limits by having a central office in the department that will handle the work and coordinate it with the States. That is the eventual plan.

Mr. HAUGEN. That is a different thing?

Dr. GALLOWAY. We have to lay the foundation for action before the Secretary has authority to act.

Mr. HAUGEN. We always lay the foundation and then spread out; that is the trouble.

Dr. GALLOWAY. I do not see how you could plan a house without laying a foundation, unless you built it in the air.

Mr. HAUGEN. We lay the foundation according to what is expected to be put on the foundation. Am I to understand that the purpose of the bill is to transfer the demonstration and farm-management work from the Bureau of Plant Industry to a certain division under the supervision of this director?

Dr. GALLOWAY. It will eventually result in that.

Mr. HAUGEN. Eventually; but what will the bill do?

Dr. GALLOWAY. The bill will do that.

Mr. HAUGEN. In what way?

Dr. GALLOWAY. It establishes an office to which the Secretary can transfer this other line of work.

Mr. HAUGEN. But you do not transfer it?

Dr. GALLOWAY. We can not do it in this bill; we have to do it somewhere else.

Mr. HAUGEN. You certainly can. There is no limit to the authority of Congress in extending the work or in making the change.

Dr. GALLOWAY. It could be done, but I do not think it should be done in this bill. This is not the place. That is a matter of administrative detail for the Secretary himself to handle. If Congress sees fit to give the Secretary that authority, there will be a large amount of organization which can only be perfected after careful consideration.

Mr. HAUGEN. I think if it is done at all it should be done in this bill. It can not be done in an appropriation bill, because it will be new legislation or changing existing law, therefore subject to a point of order. If that is what is contemplated, here is the place and the only place to do it.

Dr. GALLOWAY. Your point is this, as I understand it, to specify in this bill that all of this demonstration work and this extension work done by the department now and in the future shall be centralized and handled through this office, embodying that phraseology in the bill.

Mr. HAUGEN. Not exactly that. Instead of expending and providing for new division I would centralize, so as in place of sending six men where one can do the work I would provide for one and save the expenses of five men.

Dr. GALLOWAY. I think our records will show that we do not send six men out to do the work of one man.

Mr. HAUGEN. I do not state that to be the fact. There may not be six, but there may be three, or possibly two. If only two, I would save the expense of one or whatever number possible.

Mr. DOOLITTLE. Can the gentleman cite any instance where two men have been sent to do the work of one?

Mr. HAUGEN. If you will search the records, you will find that there is no question about that.

Dr. GALLOWAY. If Mr. Haugen will come down to the department and go over the records of the work and can find a place where we send out two men when one can do the work, we will correct it at once.

Mr. HAUGEN. I am not speaking about your bureau, but I am speaking about the department. Your bureau sends out one man and another bureau sends out another, when the work could all be done by one man. I am not criticizing the department, but I say that the work could be centralized and that there should be cooperation and coordination.

Dr. GALLOWAY. Just now I happen to be without a bureau.

Mr. HAUGEN. I am sure that the bureau of which you were formerly in charge is and always was managed as well as it could be. There is no criticism. This is simply a business proposition.

The CHAIRMAN. As a matter of fact, Dr. Galloway, you are trying to work out a plan by which you can prevent this so-called duplication of work in the department?

Dr. GALLOWAY. Yes, sir.

The CHAIRMAN. But this bill can not necessarily have anything to do with that?

Dr. GALLOWAY. That is a tremendous piece of work, which is going to take some time. As I started to say several times, the Secretary of Agriculture has these matters under consideration, and we are hoping to present before this committee at the coming session a suggestion or plan for giving the Secretary authority to go ahead and do these things, but it will take some time.

The CHAIRMAN. But you can not expect that authority to be carried in this bill?

Dr. GALLOWAY. No, sir.

Mr. HAUGEN. In other words, this is creating a new office, which practically means a new division or a bureau?

Dr. GALLOWAY. It will not be a new office in one way, and in another way it will. It will do the work that two offices are doing now.

Mr. HAUGEN. There will be three offices doing the work that two offices are doing now. They are doing the work?

Dr. GALLOWAY. Yes.

Mr. HAUGEN. I mean under this bill. This is a departure. Work referred to done under appropriation made for the department. This money is to be turned over to the States?

Dr. GALLOWAY. Yes; through the Department of Agriculture.

Mr. HAUGEN. That is simply to make the apportionment?

Dr. GALLOWAY. And something more than that.

Mr. HAUGEN. Yes; same as appropriations for the experiment stations, done by the Office of Experiment Stations; why not turn the apportionment over to that office?

Dr. GALLOWAY. Something more than that. This is not to be a post-mortem examination. The Department of Agriculture and the colleges are going to work together, hand in hand, to help the farmers as best they can.

Mr. HAUGEN. In what respect will the apportionment and work differ from that done in the Office of Experiment Stations, so far as the Agricultural Department is concerned?

Dr. GALLOWAY. This bill provides for a mutual understanding between the agricultural colleges and the Secretary, the submittal of projects, and mutual agreement as to projects before the work is inaugurated or put through. That is practically the same system we have now in connection with some of the farm management work, whereby we agree to put a certain amount in a State and the investigational work of the department is placed in the hands of the agricultural colleges.

Mr. McLAUGHLIN. In the old bill, in section 4, there is a proviso to the effect that 75 per cent of all the moneys appropriated and available under the act shall be expended in a certain way, namely, in actual instruction and demonstration.

Dr. GALLOWAY. Yes.

Mr. McLAUGHLIN. There is nothing of that kind in this bill, as I understand. What do you think of that?

Dr. GALLOWAY. That was carefully considered, and it was believed unnecessary to include that proviso. It is in a measure taken care of, I think, a little further along. There are certain things taken



out of the bill that can not be done under this act. The dominant idea here is demonstration.

Mr. McLAUGHLIN. That is what we intend. Is it made clear, though, in the bill? The agricultural colleges are now receiving, and for many years have received, large sums of money, and I think the idea of some was that the money should be expended in outside work, but a very large part of it has been pent within the colleges. The idea now is to furnish money for outside work and to permit its use for no other purpose.

Dr. GALLOWAY. Yes, sir.

Secretary HOUSTON. Does not section 2 cover that?

Mr. McLAUGHLIN. I have not examined it carefully, but if it covers it that is all right. It seems to me it ought to be made clear.

Secretary HOUSTON. Look at section 2 from line 14 to line 20.

The CHAIRMAN. Please read that section, so that we may have it in the record.

Dr. GALLOWAY (reading):

SEC. 2. That cooperative agricultural extension work shall consist of the giving of instruction and practical demonstrations in agriculture and home economics to persons not attending or resident in said colleges in the several communities, and imparting to such persons information on said subjects through field demonstrations, publications, and otherwise, and this work shall be carried on in such manner as may be mutually agreed upon by the Secretary of Agriculture, or his representative, and the State agricultural college or colleges receiving the benefits of this act.

The CHAIRMAN. The old bill provided that 75 per cent of this money should be used for actual field demonstrations, but section 2 of this bill does not set out the money to be used for that purpose, and I think that is what Mr. McLaughlin is getting at.

Dr. GALLOWAY. Yes.

The CHAIRMAN. This section provides that it shall all be used for field instruction and practical demonstrations.

Dr. GALLOWAY. Yes.

Mr. RUBEY. In addition to that, section 6 provides a limitation on the expenditures and enumerates the things for which this money shall not be spent.

Dr. GALLOWAY. Taking section 6 and section 2 together, section 6, by a process of exclusion, sets out certain things that can not be done, and it practically limits all of the work to these demonstrations, home economics, etc. Now, that matter was considered when this bill was redrafted, and it was believed that the predominant work should be demonstration work and that it could be adjusted and handled through mutual understandings on the part of the Secretary of Agriculture and the presidents or deans of the colleges.

Mr. McLAUGHLIN. You are in sympathy with the idea of taking this work out to the farmers and those who are not able to attend the colleges?

Dr. GALLOWAY. Absolutely.

Mr. McLAUGHLIN. I have always understood that you were in sympathy with that idea, and you think that this bill as now drawn properly safeguards that?

Dr. GALLOWAY. I do; and I think if allowed a little elasticity that it will make it practicable for the Secretary of Agriculture to more energetically take this work out to all the people and directly help the farmer on his own farm. Perhaps in this connection it might be well to call attention to a matter which was before the last meeting

of the Association of Agricultural Colleges and Experiment Stations held at Atlanta. At that time the committee had under consideration this question of extension work, in fact, the association has had under consideration this extension work for a number of years, and from time to time has made reports, as some of you gentlemen are aware. At this meeting the committee brought forward a report which quite clearly defined extension work, or attempted to do so, and then brought forward some arguments as to the necessity for this work and its object. I do not know that it is necessary to read this entire statement, but I would like, Mr. Chairman, to put it in the record at this point. I think it would be of value because it brings out the very question propounded by Mr. McLaughlin.

The CHAIRMAN. Without objection, it will be inserted in the record.

(Said report follows:)

The committee appointed by the Association of Agricultural Colleges and Experiment Stations to consider the whole question of extension service in its relation to helping the farmer groups its general work in extension service under three heads: (1) Systematic instruction, (2) informal teaching, and (3) organization of rural communities. Under each of these heads are several subheads dealing with such questions as the movable school, the correspondence course, the lecture and reading course, the study club, boys' and girls' clubs, conventions and lectures, farmers' institutes and farmers' week, farmers' conferences, demonstrations, railway specials, exhibitions, educational excursions, etc. The committee, commenting on this outline, says:

"This type of work is so fundamental in its relationship to agricultural prosperity that no student of the situation can but be convinced that the work itself must expand largely and go on for all time. The only question is, Who is going to do it? Is it to be the agricultural colleges or are other agencies to perform it?"

"It is true that there are those who say that we can not hope to reach the hundredth man on the farm; that the most we can do is to train leaders at the colleges, and then through agricultural departments of high schools and such means as the agricultural press, various agricultural societies, etc., let the modern knowledge percolate down as far as it may.

"Your committee believes that this doctrine is essentially undemocratic. We believe that the attempt should be made to reach the last man on the land, not primarily because of a sentimental regard for that last unfortunate man, but because it is absolutely essential in the conservation of soil resources that the intelligence of soil tillers be conserved.

"The land in America devoted to agriculture is in the hands of some seven or eight million different men. A large proportion of these men are owners of the land, who have the power to determine whether the land shall be used properly or whether its fertility shall be encroached upon. They can not be compelled by law to take proper care of their land. They will care for it properly only as they are educated to the level of an appreciation of the importance of right farming to themselves and to their posterity.

"There is another element in the situation. The character of our agricultural population is constantly changing. The foreigner, ignorant of our language and often ignorant of the best types of farming, is gradually crowding out the old American farmer. In other words, we have a perpetually flowing current of new soil workers that must be brought to understand the best methods of farming.

"And then, too, we are making such rapid strides in our knowledge of agricultural science that even the graduates of agricultural schools and colleges will need to continue their studies. The time is coming when the extension service of the agricultural college will devote a considerable portion of its time to correspondence—teaching the better educated farmers, who will avail themselves of this opportunity to keep themselves abreast of the times. This suggests that even if the attempt to reach the great masses of the farmers be given over to other agencies, the extension service of the agricultural college could find ample scope for its energies in the higher forms of extension teaching."

Mr. McLAUGHLIN. Is it not true that the college men, and, perhaps, the gentlemen connected with your bureau, consider lectures and institutes as extension work?

Dr. GALLOWAY. Yes; that is considered extension work by the colleges.

Mr. McLAUGHLIN. But the idea of this bill is to go farther and to do a different kind of work from that?

Dr. GALLOWAY. Oh, yes; in fact, I think that everybody connected with the college work in the department is beginning to recognize that the influence of the farmers' institute is on the wane, that the people will have to be reached in some other way, and that the institute has had its day.

Mr. McLAUGHLIN. Suppose some authority in an agricultural college, directing the use of the money at that end of the line, should think that institutes are still a good thing and that by lectures they could reach the people as they ought to be reached, and would choose to spend a lot of money in that way instead of employing men to go right on the farms and meet the farmers, is there any check on that in this bill?

Dr. GALLOWAY. The check would come through the Secretary of Agriculture in the handling of these projects.

Mr. McLAUGHLIN. In one of the sections there is a provision that there shall be a conference at the beginning of the year—I do not remember just how it reads—to lay out the work of the following year, or to determine how the money shall be expended, but there is no authority vested in your department to direct the expenditure of the money as determined at the conference.

Mr. GALLOWAY. No; but it provides for the submittal of projects, the same as is the case with the Adams Act.

Mr. McLAUGHLIN. Who shall adopt and pass upon them?

Dr. GALLOWAY. The Secretary of Agriculture.

Mr. McLAUGHLIN. And has he authority to see that they are carried out just as they are accepted?

Dr. GALLOWAY. Yes; that is provided in section 2.

Mr. HAWLEY. If they vary in any way they endanger the next year's appropriation, do they not?

Dr. GALLOWAY. If the Secretary should decline to approve the project, of course the certificates to the Secretary of the Treasury, as provided in section 5, would not go forward, and they would receive no money.

Mr. HAWLEY. And if they misused the money one year, until the State made it good, they would lose the money for the next year—that is, they have to replace the money that has been misused?

Dr. GALLOWAY. Yes, sir.

The CHAIRMAN. As a matter of fact, they can not use any money at all until the Department of Agriculture and the colleges have agreed upon a plan or plans? Is not that true under section 2 of the bill?

Dr. GALLOWAY. Yes; that is true.

Mr. McLAUGHLIN. It goes a little farther than that and is a little better than I thought from a casual reading of it.

The CHAIRMAN. Section 3 covers that, too.

Mr. McLAUGHLIN. Yes; beginning with line 20.

Dr. GALLOWAY. That section provides:

That before the beginning of each fiscal year projects setting forth the proposed plans for work to be carried on under this act shall be submitted by the proper officials of each college and approved by the Secretary of Agriculture before the funds herein appropriated shall become available to such college for that fiscal year.

Mr. McLAUGHLIN. That is better than I thought it was from a casual reading of the bill.

Mr. HAUGEN. The Federal Government under this bill will exercise absolute power and control over this appropriation and will have the right to say what particular project shall be carried out after the appropriation has been made. Now, what will the State rights people say? Are we not likely to encounter some difficulties along that line?

Dr. GALLOWAY. Perhaps that question had better be propounded to the gentlemen themselves.

Mr. HAUGEN. You have had experience. This matter has been under consideration by you for some time, and that is the reason why I ask you.

Dr. GALLOWAY. Well, there will be no trouble whatever, because it is simply a matter of mutual relations.

Mr. HAUGEN. You are aware of the fact that there is a great deal of opposition to the bill on that ground? You are aware of the fact that there are still States rights people in the United States?

Dr. GALLOWAY. There was considerable opposition, but I believe that when it is fully understood what the aims and objects of this bill are and what this bill intends to carry through that that opposition will amount to very little. I think there is absolutely no question but that with the proper handling of the matter here at the department we can establish the most friendly and cordial relations with all the States. We have never had any difficulty.

Mr. HAUGEN. You have never had any difficulty in regard to other appropriations?

Dr. GALLOWAY. No; it is just a question of relationships.

Dr. THOMPSON. I would like to read a word or two from Dean Russell on that very point [reading]:

(3) That part of the proposed modification under section 3, which relates to the formulation of distinct projects at the beginning of each fiscal year, setting forth the plans of the work to be carried on under this act, submitted by the proper officials of each college, and approved by the Secretary of Agriculture, is, in my judgment, a most excellent provision. For the last year or so I have had in mind the marked desirability of transferring our extension service work onto a project basis, the same as is done with our Adams experiments. The working out of a specific project prior to the inauguration of any line of work means thoroughness of detail with reference to the plan and economy in administration. This I regard as a most valuable improvement. I take it that the approval of the Secretary of Agriculture will only relate to whether or not it is a rational and suitable project to be submitted under the extension funds. If this matter is handled with the same degree of tact and reasonableness that the Hatch and Adams funds have been handled, I see no particular objection thereto.

Mr. McLAUGHLIN. Whose opinion is that?

Dr. THOMPSON. Dean Russell, of the University of Wisconsin.

The CHAIRMAN. Dr. Galloway, suppose you take the remaining sections and compare them with the old bill. Then we will ask the Secretary of Agriculture to make a general statement.

Dr. GALLOWAY. I had reached section 4 and we had discussed that section. Section 5 merely indicates the manner in which the funds shall be paid—that is, by certificates from the Secretary of Agriculture to the Secretary of the Treasury. It is not necessary that we discuss that section very fully.

The CHAIRMAN. It is not different from the old bill?

Dr. GALLOWAY. It is not different from the old bill. In section 6 there is no material change from the old bill. That section simply

makes provision for the loss or misapplication of any of the funds. It is identical with the old bill, and that clause has been very carefully worked out by officials in the Treasury Department and our department, and I think can be passed over without further comment.

The CHAIRMAN. That section is also identical with the present law, is it not—that is, with reference to the Adams Act?

Dr. GALLOWAY. Yes; the same as the Hatch Act, but it is more closely comparable with the Adams Act, which is believed to be better than the Hatch Act. Section 7 is a still further elucidation of the methods of payment, simply giving the necessary phraseology of the manner in which the legislatures are expected to act in case of the loss of funds or the misapplication of funds. Section 8 provides merely that each year the Secretary of Agriculture shall make an annual report to Congress of the receipts and expenditures in connection with this bill.

In order that the differences between the original bill and the proposed modification may be clearly set forth I desire to introduce into the record copies of the bills side by side, so that a comparison for the purpose of showing just where the differences exist may be readily made. The original bill as passed by the House of Representatives will be found in the right-hand column, the proposed modification in the center column, and an analysis of the proposed changes and comments will be found in the third column of the accompanying statement.

## COOPERATIVE AGRICULTURAL EXTENSION WORK.

## ORIGINAL BILL INTRODUCED BY MR. LEVER.

A BILL To establish agricultural extension departments in connection with agricultural colleges in the several States receiving the benefits of an act of Congress approved July second, eighteen hundred and sixty-two, and of acts supplementary thereto.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That in order to aid in diffusing among the people of the United States useful and practical information on subjects relating to agriculture and home economics, and to encourage the application of the same, there may be established, under the direction of the college or colleges in each State now receiving, or which may hereafter receive, the benefits of the act of Congress approved July second, eighteen hundred and sixty-two, entitled "An act donating public lands to the several States and Territories which may provide colleges for the benefit of agriculture and the mechanic arts," and of acts supplementary thereto, a department to be known and designated as an agricultural extension department: *Provided,* That in any State in which two or more such colleges have been or hereafter may be established the appropriations hereinafter made to such State shall be administered by such college or colleges as the legislature of such State may direct.

## PROPOSED MODIFICATION.

A BILL To provide for cooperative agricultural extension work between the agricultural colleges in the several States receiving the benefits of an act of Congress approved July second, eighteen hundred and sixty-two, and of acts supplementary thereto, and the United States Department of Agriculture.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That in order to aid in diffusing among the people of the United States useful and practical information on subjects relating to agriculture and home economics, and to encourage the application of the same, there may be inaugurated in connection with the college or colleges in each State now receiving, or which may hereafter receive, the benefits of the act of Congress approved July second, eighteen hundred and sixty-two, entitled "An act donating public lands to the several States and Territories which may provide colleges for the benefit of agriculture and the mechanic arts," (Twelfth Statutes at Large, page five hundred and three), and of the act of Congress approved August thirtieth, eighteen hundred and ninety (Twenty-sixth Statutes at Large, page four hundred and seventeen), agricultural extension work which shall be carried on in cooperation with the United States Department of Agriculture: *Provided,* That in any State in which two or more such colleges have been or hereafter may be established the appropriations hereinafter made to such State shall be

## ANALYSIS OF PROPOSED CHANGES AND COMMENTS.

The words, "agricultural extension departments" have been changed throughout the modified form of bill to "cooperative agricultural extension work," and the cooperative nature of the work as between the colleges and the department emphasized.

In the original bill no provision was made for cooperation between the various State agricultural colleges and the United States Department of Agriculture, although the work which would naturally be carried on would closely parallel that for which Congress now makes large annual appropriations, namely, the farmers' cooperative demonstration work and the farm-management work.

Under the modified form of bill, all the extension and demonstration work carried on by the State agencies, as well as by the department in the various States, can be correlated and unified and the expenditure of the public funds more efficiently and economically administered, and better results secured.

As many of the State agricultural colleges already have extension departments, or the necessary machinery for conducting extension work, or at least have authority to conduct such work, there does not seem to be any necessity for the establishment of distinct extension departments as is provided for in the original bill.

No material change in the first part of this section has been made, except that the word

administered by such college or colleges as the legislature of such State may direct.

SEC. 2. That it shall be the object and duty of said agricultural extension departments to give instruction and practical demonstrations in agriculture and home economics to persons not attending or resident in said colleges in the several communities, as may be provided by the States accepting the provisions of this act, and to convey and impart to such persons information on said subjects through field demonstrations, publications, and otherwise: *Provided*, That nothing contained in this act shall be construed to interfere with either the demonstration of farm-management work as now conducted by the Department of Agriculture and known as the farmers' cooperative demonstration work and farm-management work.

SEC. 3. That all correspondence for the furtherance of the purposes of this act issued from the agricultural colleges to their agents or by the agents of the said extension departments thereof receiving the benefits of this act shall be transmitted in the mails of the United States free of charge for postage under such

"established" has been changed to "inaugurated."

More specific reference is made to the acts establishing and extending the agricultural colleges in order to prevent confusion.

Specific provision is made that the work shall be carried on cooperatively between the colleges and the department.

The provision for the establishment of "extension" departments is omitted, it being understood that the colleges which will avail themselves of the benefits of this act are already prepared or have the necessary authority to conduct such work.

Provision is here made for the conduct of the work in a manner mutually satisfactory to the Secretary of Agriculture and the agricultural colleges, which makes reference to the present demonstration work of the department unnecessary. This paragraph is also made to conform with section one, no mention being made of extension departments in the colleges.

No attempt is made to define the exact methods which shall be used for imparting information except that "field demonstrations" are mentioned. Later in the bill there is a prohibition against lectures at colleges or the promotion of agricultural trains. The procedure to be followed in the different States will be such as will best serve the particular needs of each section of the country.

In view of the fact that the work is to be conducted in cooperation with the United States Department of Agriculture and the correspondence and literature relating to the work can be sent out under the department frank, this section does not seem necessary.

The department is now conducting a great

SEC. 2. That cooperative agricultural extension work shall consist of the giving of instruction and practical demonstrations in agriculture and home economics to persons not attending or resident in said colleges in the several communities, and imparting to such persons information on said subjects through field demonstrations, publications, and otherwise; and this work shall be carried on in such manner as may be mutually agreed upon by the Secretary of Agriculture or his representative and the State agricultural college or colleges receiving the benefits of this act.

(Section three of the original bill introduced by Mr. Lever has been omitted from the proposed modification for the reasons indicated.)

# ANALYSIS OF PROPOSED CHANGES AND COMMENTS—Continued.

deal of cooperative work similar to that provided for in this bill in connection with its farm-management demonstration work, and the department frank is used, the cooperative nature of the work being shown on the literature and stationery.

The funds provided for in the modified section are identical with those provided in the original bill. The appropriating words are changed slightly in the interest of clearness.

A table showing the maximum amount payable to each State for each year under the provisions of the bill is attached.

The clause which has been added providing for approval of the work by the Secretary of Agriculture will insure a correlation of the work and uniformity in the extension work throughout the country.

The provision that not less than seventy-five per centum of all moneys available under the act shall be expended for field instructions and demonstrations has been omitted from the proposed modification of the bill, it being considered unnecessary in view of the added provision for the approval of the work contemplated by the various States by the Secretary of Agriculture.

## PROPOSED MODIFICATION—Continued.

SEC. 3 (4). That for the purpose of paying the expenses of said cooperative agricultural extension work and the necessary printing and distributing of information in connection with the same, there is permanently appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$480,000 for each year, \$10,000 of which shall be paid annually, in the manner hereinafter provided, to each State which shall by action of its legislature assent to the provisions of this act: *Provided*, That payment of such installments of the appropriation hereinbefore made as shall become due to any State before the adjournment of the regular session of the legislature meeting next after the passage of this act shall be made upon the assent of the governor thereof, duly certified to the Secretary of the Treasury: *Provided*, That there is also appropriated an additional sum of \$300,000 for the fiscal year following that in which the foregoing appropriation first becomes available, and for each year thereafter for nine years a sum exceeding by \$300,000 the sum appropriated for each preceding year, and for each year thereafter there is permanently appropriated for each year the additional sum of \$3,000,000: *Provided further*, That before the beginning of each fiscal year projects setting forth the proposed plans for work to be car-

## ORIGINAL BILL INTRODUCED BY MR. LEVER—Continued.

regulations as the Postmaster General from time to time may prescribe.

SEC. 4. That for the purpose of paying the necessary expenses of maintaining said agricultural extension departments and printing and distributing information on agriculture and home economics, as hereinbefore prescribed, and for otherwise carrying out the provisions of this act, the sum of \$10,000 shall be, and hereby is, annually appropriated, out of any money in the Treasury not otherwise appropriated, to be paid, as hereinafter provided, to each State which shall by action of its legislature assent to the provisions of this act: *Provided*, That payment of such installments of the appropriation hereinbefore made as shall become due to any State before the adjournment of the regular session of the legislature meeting next after the passage of this act shall be made upon the assent of the governor thereof, duly certified to the Secretary of the Treasury: *Provided further*, That the additional sum of \$300,000 shall be appropriated for the fiscal year ending June thirtieth, nineteen hundred and fourteen, to be paid as herein-after provided, and an annual increase of the amount of such appropriation thereafter for nine years by an additional sum of \$300,000 over the preceding year, and the annual additional sum to be paid thereafter to the States shall be \$3,000,000, to be used only for the purposes hereinbefore stated; these



ried on under this act shall be submitted by the proper officials of each college and approved by the Secretary of Agriculture before the funds herein appropriated shall become available to such college for that fiscal year. Such additional sums shall be used only for the purposes hereinbefore stated and shall be allotted annually to each State by the Secretary of Agriculture and paid in the manner hereinbefore provided in the proportion which the rural population of each State bears to the total rural population of all the States, as determined by the next preceding Federal census: *Provided*, That no payment out of the additional appropriations herein provided shall be made in any year to any State until an equal sum has been appropriated for that year by the legislature of such State, or provided by State, county, college, or local authority for the maintenance of cooperative agricultural extension work.

Sac. 4. That there shall be in the Department of Agriculture a Director of Cooperative Agricultural Extension Work, to be appointed by the Secretary of Agriculture and report directly to him. The salary of such director shall be such as may be provided for by law from time to time.

additional sums to be allotted annually to each State in the proportion which its rural population bears to the total rural population of all the States, as determined by the next preceding Federal census: *Provided further*, That no State shall be entitled to any part of its allotment of these additional sums unless its legislature has heretofore provided or until it shall provide for the establishment of an agricultural extension department in its college or colleges receiving the benefits of this act, and the additional amount to be paid in any year to any State under this act shall be a sum not exceeding the sum appropriated for that year by the legislature of such State or provided by State, county, college, or local authority for the maintenance of said agricultural extension departments: *And provided further*, That in each State which shall assent to the provisions of this act there shall be expended each year for field instruction and demonstrations not less than seventy-five per centum of all moneys available under the provisions of this act.

In order to provide a central agency to direct the extension work, this provision, not contained in the original bill, has been added. Such a Director of Extension Work would be directly responsible to the Secretary of Agriculture and would be his representative in dealing with the colleges. His salary and other expenses would be included in the annual appropriation bill of the department.

It would seem highly essential that there should be such an officer, who should be thoroughly trained and experienced in extension and demonstration work and possess a high degree of tact in order to promote and

SEC. 5. That whenever it shall appear to the Secretary of the Treasury from the annual statement of receipts and expenditures of any of said agricultural extension departments that a portion of the preceding annual appropriation remains unexpended, such amount shall be deducted from the next succeeding annual appropriation for such agricultural extension department, in order that the amount of money appropriated for any agricultural extension department shall not exceed the amount actually required for its maintenance and support.

SEC. 6. That the sums hereby appropriated for extension work shall be annually paid in equal semiannual payments on the first day of January and July of each year by the Secretary of the Treasury, upon the warrant of the Secretary of Agriculture, out of the Treasury of the United States, to the treasurer or

(Section 5 of the original bill has been omitted from the proposed modification for the reasons indicated.)

maintain cordial relations with the colleges. The employment of such an officer who would be in touch with extension work all over the country, would insure the dissemination of those extension principles and practices which are proving to be the most effective in reaching the farmer on his own farm and the elimination of effort along lines which are not productive of results.

Section 5 of the original bill has been entirely omitted. With such a provision the tendency would be to expend the entire appropriation each year, whether the needs of the work required it or not, knowing that if the appropriation was not entirely expended that the appropriation for the following year would be reduced by the amount not so expended. The result in many cases, no doubt, would be a waste or at least an uneconomical use of the public funds. As all of the money not expended during the year for which it is appropriated reverts to the Treasury in any event and as circumstances might arise which would make it impossible to properly expend the entire appropriation in a particular year because of resignations or other causes, while the entire fund might be urgently needed the following year, it is not believed advisable to have such a provision embodied in the bill.

Section 5 of the proposed modification is identical with section 6 of the original bill introduced by Mr. Lever.

SEC. 5 (4). That the sums hereby appropriated for extension work shall be annually paid in equal semiannual payments on the first day of January and July of each year by the Secretary of the Treasury, upon the warrant of the Secretary of Agriculture, out of the Treasury of the United States, to the treasurer or

other officer of the State duly authorized by the laws of the State to receive the same; and such officer shall be required to report to the Secretary of Agriculture, on or before the first day of September of each year, a detailed statement of the amount so received during the previous fiscal year, and of its disbursement, on forms prescribed by the Secretary of Agriculture.

Sec. 7. That if any portion of the moneys received by the designated officer of any State for the support and maintenance of agricultural extension departments, as provided in this act, shall by any action or contingency be diminished or lost, or be misapplied, it shall be replaced by said State to which it belongs, and until so replaced no subsequent appropriation shall be apportioned or paid to said State and no portion of said moneys shall be applied, directly or indirectly, to the purchase, erection, preservation, or repair of any building or buildings, or to the purchase or rental of land, or in college course teaching, lectures in colleges, promoting agricultural trains, or any other purpose not specified in this act, and not more than five per centum of each annual appropriation shall be applied to the printing and distribution of publications. It shall be the duty of each of said colleges annually, on or before the first day of January, to make to the governor of the State in which it is located a full and detailed report of its operations in the direction of extension work as defined in this act, including a detailed statement of receipts and expenditures from all sources for this purpose, a copy of which report shall be sent to the Secretary of Agriculture and to the Secretary of the Treasury of the United States.

or other officer of the State duly authorized by the laws of the State to receive the same; and such officer shall be required to report to the Secretary of Agriculture, on or before the first day of September of each year, a detailed statement of the amount so received during the previous fiscal year, and of its disbursement, on forms prescribed by the Secretary of Agriculture.

Sec. 6 (7). That if any portion of the moneys received by the designated officer of any State for the support and maintenance of cooperative agricultural extension work, as provided in this act, shall by any action or contingency be diminished or lost, or be misapplied, it shall be replaced by said State to which it belongs, and until so replaced no subsequent appropriation shall be apportioned or paid to said State and no portion of said moneys shall be applied, directly or indirectly, to the purchase, erection, preservation, or repair of any building or buildings, or the purchase or rental of land, or in college course teaching, lectures in colleges, promoting agricultural trains, or any other purpose not specified in this act, and not more than five per centum of each annual appropriation shall be applied to the printing and distribution of publications. It shall be the duty of each of said colleges annually, on or before the first day of January, to make to the governor of the State in which it is located a full and detailed report of its operations in the direction of extension work as defined in this act, including a detailed statement of receipts and expenditures from all sources for this purpose, a copy of which report shall be sent to the Secretary of Agriculture and to the Secretary of the Treasury of the United States.

No material change except to substitute the word "work" for "departments" and to add the word "cooperative," in order to make this paragraph conform to the rest of the bill.

ORIGINAL BILL INTRODUCED BY MR. LEVER—  
Continued.

SEC. 8. That on or before the first day of July in each year after the passage of this act the Secretary of Agriculture shall ascertain and certify to the Secretary of the Treasury as to each State whether it is entitled to receive its share of the annual appropriation for agricultural extension departments under this act and the amount which thereupon each is entitled, respectively, to receive. If the Secretary of Agriculture shall withhold a certificate from any State of its appropriation, the facts and reasons therefor shall be reported to the President, and the amount involved shall be kept separate in the Treasury until the expiration of the Congress next succeeding a session of the legislature of any State from which a certificate has been withheld, in order that the State may, if it should so desire, appeal to Congress from the determination of the Secretary of Agriculture. If the next Congress shall not direct such sum to be paid, it shall be covered into the Treasury. And the Secretary of Agriculture is hereby charged with the proper administration of this law.

SEC. 9. That the Secretary of Agriculture shall make an annual report to Congress of the receipts and expenditures and work of the agricultural extension departments in all of the States receiving the benefits of this act, and also whether the appropriation of any State has been withheld; and if so, the reasons therefor.

SEC. 10. That Congress may at any time alter, amend, or repeal any or all of the provisions of this act.

## PROPOSED MODIFICATION—Continued.

SEC. 7 (8). That on or before the first day of July in each year after the passage of this act the Secretary of Agriculture shall ascertain and certify to the Secretary of the Treasury as to each State whether it is entitled to receive its share of the annual appropriation for cooperative agricultural extension work under this act and the amount which it is entitled, respectively, to receive. If the Secretary of Agriculture shall withhold a certificate from any State of its appropriation, the facts and reasons therefor shall be reported to the President, and the amount involved shall be kept separate in the Treasury until the expiration of the Congress next succeeding a session of the legislature of any State from which a certificate has been withheld, in order that the State may, if it should so desire, appeal to Congress from the determination of the Secretary of Agriculture. If the next Congress shall not direct such sum to be paid, it shall be covered into the Treasury.

No material change, except in phraseology to conform to the rest of bill.

Reference to extension "departments" omitted.

No change.

ANALYSIS OF PROPOSED CHANGES AND  
COMMENTS—Continued.

No change in wording, except to substitute word "work" for "departments."

The sentence "And the Secretary of Agriculture is hereby charged with the proper administration of this law," is omitted in view of previous provision placing the duty upon him each year of approving all projects or plans for work before the funds can be used by the colleges.

Dr. GALLOWAY. It may be proper to submit a memorandum showing the tentative suggestions agreed to by the Committee of the Association of Agricultural Colleges and Experiment Stations, after consultation with the Secretary of Agriculture in relation to the general subject of closer relationships on the part of the Department of Agriculture and the agricultural colleges and experiment stations of the several States.

(The memorandum referred to by Dr. Galloway and letters accompanying it follow:)

THE OHIO STATE UNIVERSITY,  
Columbus, May 19, 1913.

HON. DAVID F. HOUSTON,  
*Secretary of Agriculture, Washington, D. C.*

MY DEAR MR. SECRETARY: I submit herewith the typewritten statement of the final draft of the suggestions discussed at the conference last Saturday with the executive committee. This is submitted to you for amendment and further suggestions as may seem desirable to you. The committee tried to include all the items in the discussion that seemed to be of importance but may have omitted some, and in that case we shall be very much pleased to have you complete the statement.

If you will have the kindness to render this service and return a copy to me with your approval, I shall then, as suggested in the conference, prepare copies and forward them to the several colleges and stations as information. I should not do this, of course, without your approval.

With renewed appreciation of your kindness to the committee and to myself in person at the recent meeting, I have the honor to remain,

Yours, very truly,

W. O. THOMPSON.

TENTATIVE SUGGESTIONS AGREED TO BY THE EXECUTIVE COMMITTEE OF THE ASSOCIATION OF AMERICAN AGRICULTURAL COLLEGES AND EXPERIMENT STATIONS AFTER CONSULTATION WITH THE HONORABLE SECRETARY OF AGRICULTURE.

The executive committee of the Association of American Agricultural Colleges and Experiment Stations desires to express to the honorable Secretary of Agriculture its great gratification at the attitude of his department in its effort to bring about a closer and more efficient relationship between the work of the department and that of the colleges and experiment stations.

(1) The executive committee heartily indorses the suggestion of the Secretary that as a means of inaugurating and perpetuating an intelligent and sympathetic cooperation of these agencies there be established a permanent committee on the general relations of the department and the colleges, said committee to be made up of representatives from both the department and the association.

RESEARCH.

(1) The executive committee cordially agrees with the point of view of the Secretary that the primary function of the Federal department is to undertake the study of problems that are more particularly regional, interstate, and international in character, and that upon the station should rest the responsibility of investigating the problems that arise within their respective States.

This general policy is not to debar a union effort by the department and a given station in the study of a problem whenever it becomes evident that such cooperation is necessary or will tend to a more successful outcome.

(2) Whenever the department finds it desirable to study a problem within a given State, harmonious relations and an intelligent understanding would undoubtedly be promoted by a consultation between the department and the State's station prior to its inauguration. In case the station is unable to cooperate in the work, or does not desire to do so, it should lend sympathetic and advisory support.

(3) Unqualified approval is given to the proposal of the Secretary that in order to assist in the carrying out of the policy of cooperation there be organized a joint committee on the correlation of research, to be made up of representatives from the department and the college and station association, one function of said committee to be the preparation for early publication by the department of a list of scientific projects to be undertaken by both the department and the stations. This committee should also be empowered to assist in any feasible way in correlating the work of the

National and State research agencies in such manner as shall promote efficiency in securing results.

(4) Equally emphatic approval is given to the plan of holding group conferences between the scientific specialists of the department and the stations. It would seem desirable and perhaps necessary that owing to financial conditions within the association and stations the necessary expenses of such conferences should be met from a fund administered by the department.

(5) It seems to be mutually agreed that in order to make available to students of science the research work of the department and stations and to promote its standing in the scientific world there should be published by the department a journal of agricultural research, such journal to contain only those contributions from the department and stations as are viséed by the committee selected for that purpose.

#### EXTENSION.

The executive committee approves the policy of unifying the administration of the extension service and is desirous of assisting in securing Federal legislation to that end on the basis of the following principles and conditions:

(a) That the extension service shall be administered wholly under the immediate direction of the college of agriculture. State leaders of extension service shall be appointed by said colleges and shall be recognized as college officials.

(b) That extension-service projects maintained by Federal funds shall be entered upon only after mutual approval by the department and the colleges.

(c) That the funds to be applied to the maintenance of the extension service shall be secured through congressional appropriations made to the Federal department, to be distributed by it to the several States as provided by law on the basis of the fundamental provisions embodied in the Lever bill (H. R. 1692).

(d) It is understood that the appropriations made for extension service by the several States shall be under their control.

(e) It is further understood that the (Federal) moneys appropriated to extension service shall all be expended under the plans and agreements mutually approved by the department and colleges, and that no outside cooperative arrangement for maintaining extension service shall be made with any corporation or commercial body, excepting as a corporation or commercial body may wish to donate funds to be administered in extension service exclusively by the colleges of agriculture in consultation with the department.

MAY 26, 1913.

Prof. W. O. THOMPSON,  
*President Ohio State University, Columbus, Ohio.*

DEAR PRESIDENT THOMPSON: I have your recent note, together with the draft of suggestions looking toward bringing about closer relationships between the department and the college and stations. The suggestions are approved, although there are a few slight changes in the phraseology that might be just as well added later, after further discussion with your committee.

In view of the department's relations with the general education board, I would suggest that the words "corporation or" be omitted from the last paragraph, lines 6 and 7. This will limit the application of the paragraph to commercial bodies only. In view of our contract with the general education board, I would be pleased to consider further the relations of this work to that of the colleges at our next meeting. I have no doubt that satisfactory conclusions can be reached whereby all of the extension service may be handled through the colleges, where it seems to me it properly belongs.

With kindest regards, I am,  
Yours, sincerely,

D. F. HOUSTON, *Secretary.*

The CHAIRMAN. We are very much obliged to you, sir; and if no member of the committee has any questions, we will hear from the Secretary of Agriculture.

Before the Secretary begins his statement, I would like to say that I have not printed the statement that Dr. Galloway has been reading from, because I thought it better to print it with these hearings and make it a part of the entire proposition, and with the consent of the committee I will add it to Dr. Galloway's statement, so you will have the two together.

**STATEMENT OF HON. DAVID F. HOUSTON, SECRETARY OF AGRICULTURE.**

Secretary HOUSTON. Mr. Chairman and gentlemen, I think perhaps this matter might clear itself in the minds of some of the members if we made plain at the outset just what this bill intends to accomplish. Both the Department of Agriculture and the State colleges have many departments or bureaus, as you know. For many years they have been making investigations in an effort to discover things that will be helpful to farmers. For many years they have been trying to make known to the farmers what they have discovered. I think the greatest achievement the colleges have made, perhaps, is in the matter of discovering information, but the greatest difficulty they have encountered is in getting the information to the farmers and in inducing farmers to apply that information. I suppose the gentlemen from the land-grant colleges—and some of you, perhaps, know that I had the good fortune at one time to be connected with such a college—will agree with me that the most difficult undertaking is to get information to the farmers, and, if I may use the word, make them apply it. Personally I do not feel we have been very successful in that, especially with the small farmers in remote districts, the very men we ought to reach, and it seems to me that is one of the great problems confronting the agricultural colleges and the Department of Agriculture to-day. I imagine that if we could get all that we now know, all that these departments know, and all that the best farmers know to the farmers that are not especially informed and successful, we could revolutionize this Nation.

Now, it is rather idle to spend millions of dollars to discover things if we do not get those discoveries to the farmers and induce the farmers to apply the information.

The agencies for reaching the farmers have not been exceptionally efficient. We have various agencies. We have the press, general and special; we have the bulletins. Now, there is no need of pointing out to you gentlemen that many farmers do not get these bulletins, do not read them if they get them, do not understand them if they read them, and do not apply them if they understand them. You know that the personal message is more effective than the printed message, but the personal message, in the form of lectures, is not especially efficient. We have discovered that the farmers' institute is not the most efficient way of reaching the people. It has been ascertained that the actual demonstration of a thing is the most effective. A farmer is rather prejudiced; he is conservative and rather hard-headed. He is a man of sense and wants to be shown, and he is skeptical until he is shown. If you can take his farm and show that things can be done on it differently from the way in which he is doing those things, if results can be secured, then he is likely to follow. That seems to have been the conclusion from the demonstration work that the Federal Government and the State departments of agriculture have undertaken. Personally I know to-day of no better way of reaching the farmers than through this demonstration process.

If it is wise and legal for the Federal Government and State governments to undertake to secure this information, it certainly ought to be legal and wise to undertake to get it to the farmers in the most

efficient manner. It seems to me that the Federal department ought to have machinery to get this information to the farmers and that the State institutions ought to have efficient machinery to get whatever information they have to the farmers. Now, we are getting it to the same people, and if each is going his own way he is going to do a double task and is going to duplicate very needlessly. Therefore, it has seemed to me exceptionally wise that we should adopt the closest sort of relations, not only in this business of getting information to the farmers but discovering information for the farmers.

I saw when I was at the State college of Texas, and I see now, that there is some waste; that there is some duplication of effort in both fields—in the field of investigation and in the field of information. There has not been the closest coordination of effort. In some communities the neither of two sets of institutions knows what the other is doing. They are sometimes working on the same problem without knowledge of that fact, when one of them could attack that problem with the assistance of the other.

I think I shall not make any unfair criticism of both departments when I say that they have not always carefully planned either their investigations or their dissemination of information, and with reference to the specific thing in mind and with reference to what the other agencies have been doing, this thing being relatively new, it is not singular that it should not have been perfectly done. The Department of Agriculture has discovered, after a long period, that the best way to secure carefully considered plans is to have projects carefully considered and formulated and then systematically executed. The colleges are coming to the same conclusion. Now, it so happens that there has been no arrangement by which the Department of Agriculture could know just what projects the colleges had in mind, and the colleges did not know just what projects the department had in mind or what projects other colleges had in mind, and we have been discussing with the executive committee of the land-grant colleges whether it would not be feasible for each of these institutions to have in hand projects, formulated every year, by which all the institutions, Federal and State, can work together. You can easily see how that would clear the air. The same thing applies to the information side of it. Each has been going its own road, and I think unquestionably the most admirable feature of this bill is that in this field it will bring these agencies together and make them work with a single mind—they are working for the same people—with the minimum of waste and with the maximum of care. By the careful formation of plans the two will work together and execute the plans in a way that will be most advantageous.

Section 2 of the bill defines the kind of information and the method and manner of giving out this information. Under a subsequent section—

The CHAIRMAN. Section 6.

Secretary HOUSTON. Yes; under section 6, at the bottom of page 5, it is provided that plans shall be agreed on before the money is spent.

Now, I know that in Texas—I would not say the same is true of other States, because I do not know—our investigators very often undertook work that was haphazard and had not been carefully considered. The money was there; they were expected to spend it, and they spent it. If they had been forced to propose a project that was



carefully thought out before a cent was expended the State would have gotten better results. The same thing was true of their attempts to give information. Somebody would come along, some railway company, and say, "Let us have a farmers' institute," and they had a farmers' institute, but there was no well-devised plan. You can see exactly the same thing in this other field. The department is to give information; the colleges are to give information, and there is no reason why they should not cooperate in giving the information that they separately secure or secure in cooperation.

I believe that there is the key to the whole matter, and the most admirable feature of it is that provision which requires them to set their heads together to devise a plan for getting this information to the farmers and have an agreement beforehand. And I can not see any possible danger of the invasion of anybody's rights. If it is legal and wise for the Federal Government to make an appropriation to be used in cooperation with the States, it certainly is legal and wise for the Federal Government to take pains to see that that money is expended for the interests of the people. And that is all this provision does. The only question that could be raised, it seems to me, as to the concentration of power or legality is whether or not the Federal Government ought to appropriate the money. It does not seem to me that any question can be raised as to the wisdom and necessity of this matter after the money has been appropriated.

Now, as to the machinery. As I interpret the act, it contemplates that each State shall devise its own machinery, shall have something like an office for extension or demonstration work, and shall have its staff of workers who shall reach every farmer in that State. Now, it goes without saying that a State institution ought to be able to get into more intimate and easy touch with the farmers in its own State than the Federal department can possibly do.

Therefore, it seems to me wise that provision should be made that the State shall develop this machinery. But the Federal Government has a responsibility. In the first place, it has information that it wants to give out; in the second place, the Federal Government proposes to make an appropriation, and it is desirable that it should have machinery to see that that is carefully and wisely expended. and it does not seem to me to be wise and adequate to provide merely that after the money is expended there shall be an audit; a post mortem does not secure the best results, and it does not secure the most desirable end. The thing to do is to have the two work in close harmony, put their heads together, and adopt a plan for getting their two sorts of information to the people.

The office that is suggested here, a director of cooperative agricultural extension work, would have as its main duty to confer with similar offices in the several States and to prepare rational plans and then set them in operation through the State machinery. Now, the question has been asked whether or not there are officers already in the department who can do this. Of course, there are officers in the department who are doing this, and there is substantially a director of extension work. This creates no new office, but the difficulty with the present office is that it is attached to one bureau. At present it is attached to the Bureau of Plant Industry, and naturally the impression arose that it was to demonstrate things in the Bureau of Plant Industry. But there are other things to demonstrate in the

Department of Agriculture than plant growing. You know that one of the most interesting and difficult problems we have before us is the question of the meat supply of the country, and obviously we need to demonstrate to the man on the farm how he can grow more live stock. There is just as much need for doing that as there is to demonstrate to him how he can grow more corn. We want to carry to him the best results of the researches made by the Bureau of Animal Industry. We may have something to say, incidentally, about roads; we may have something to say about the results in other bureaus, and, in my judgment, it will be vastly better for this work if we should have an officer, not to be attached to any particular bureau, but free to use the results of the investigations made by every bureau in the Department of Agriculture, and have none of this fear of cross-firing, or jealousy, or of the question of whether or not somebody else is the proper man to do it. You can not deal with the farm in its various phases, but you have to deal with it as a unit, and you want to demonstrate to the man on the farm everything that he is interested in. This is a matter of carrying information and not of investigation.

Mr. HAUGEN. Should it not come under the Director of Experiment Stations?

Secretary HOUSTON. Of course, the experiment stations are engaged primarily in investigations. They have large problems and there are a great many of them. They have many undertakings, and, even though you were to put this thing under the Director of Experiment Stations, this in itself is such a large undertaking that you would have to have somebody to look after it. You would have to have some man to look after this work, and, for the reasons I have suggested, I think he should be an officer not attached to any particular bureau, but that he should be an independent officer working in cooperation with the colleges and the bureaus to carry their information to the people—working, as I have said, in cooperation with the colleges. If you put it under the Director of Experiment Stations, you would not save expense, and, in my judgment, you would cripple its efficiency.

So far as concentration of power goes—I have heard that phrase rather frequently—we are now carrying on in a number of States demonstration work, through a machinery that is extensive, that reaches intimately into the homes of the individual farmers of the Nation. If you extend that to every State in the Union, obviously that would be a more complete and intimate centralization of power with reference to the individual citizen than the creation of an office that should cooperate with the State institutions that are intimately reaching the individual. This bill, in my judgment, is just the reverse of centralization of power, and one of the objects of it was to prevent what some gentlemen wisely, I think, desired to prevent; that is, the creation of a great central machinery that does so intimately reach the individual citizens when they could better be reached through State agencies acting in cooperation. It seems to me that the bill very desirably and completely meets that danger.

Mr. Chairman, these are the principal thoughts that occur to me.

The CHAIRMAN. Mr. Secretary, you have made the very interesting statement that the farm must be dealt with as a unit and not in its separate and distinct phases. The purpose of this bill is to carry all the information of every character that the department

and the colleges have out to the farmers, and that would include not only information that affects production, but information, also, that affects distribution.

Secretary HOUSTON. Certainly. Let me say, and you gentlemen will understand the spirit in which I state this—you know some of this work is very recent and is just finding itself—quite a number of State demonstration agents were here recently, and I met them. I raised with them the question as to what they were doing in the several sections in which they were working to induce the farmers to raise more live stock. I have been convinced for a long time that we are devoting too much attention—I will not say that, but too exclusive attention—to live stock on the big ranges as a big business, and that one great thing we ought to do is to induce the farmers in the settled sections of this country to grow more meat to eat and in greater variety. I was asking these gentlemen who are working in the more settled sections of the country—I mean in the older sections of the country—what they were doing to induce the farmer to grow more hogs, chickens, and things of that kind. Well, they said that they felt themselves rather hampered by the Bureau of Animal Industry, and they felt that the Bureau of Animal Industry was the one to do that work; but I said, "The Bureau of Animal Industry has no machinery by which to demonstrate to the farmers these things." The Bureau of Animal Industry is engaged, in so far as it has the funds, in investigations concerning live stock, but mainly in meat-inspection work and things of that kind. "Now," I said, "it seems to me that it is your duty to demonstrate to the farmers everything that they are interested in and to give them the benefit of all the information that the department has." That is what I had in mind when I said we must deal with the farm as a unit, and that is the difficulty I see from having this office associated with any particular bureau. Is there any other question, Mr. Chairman?

The CHAIRMAN. Are there any questions you desire to ask, gentlemen?

Mr. McLAUGHLIN. One of these sections refers to projects that are to be laid out, and I do not know that I quite understand what is meant by "projects" in that connection. I understand that these men who go out now meet the farmers and give advice, or attempt to give it, on all lines of work in which the farmer is engaged.

Secretary HOUSTON. That is what we desire to have them do.

Mr. McLAUGHLIN. Now, the farmer might ask one of these agents a question relating to some phase of his work, and the agent might say, "That is not in line with the project laid down, and I can not tell you anything about that or give you any advice or assistance." I would like to know what is meant by "projects."

Secretary HOUSTON. In the first place, I should not think that any project would prevent the agent from answering a question. This demonstration work and this extension work or work of giving information, of course, might take a variety of directions in any State. You know, of course, that there are all sorts of proposals for getting matter more or less worth while to the farmers, and you have got to decide what lines of work are relatively most important at the time. You must know what you are going to try to execute in your community at any given time. One State, for instance, might limit itself

exclusively, unless there was some plan agreed upon, to home economics instead of demonstration with a view to meeting the boll-weevil problem. Suppose you take a concrete case. For instance, suppose you take Louisiana or Alabama, where the boll weevil is making itself felt; take Mississippi, where it is felt, and Georgia, where it will be felt—now, certainly the critical problem there is to prepare to meet the boll weevil, and you want specific plans made to prepare to meet the boll weevil.

A great many things are being done that are foolish; there are things suggested that experience would seem to indicate would be wise, and you would, therefore, lay out definite lines of work to meet that problem. You might decide that you are going to do that rather than give your exclusive time and attention to the extension of home economics. That is one illustration, and there are numbers of illustrations I might suggest to show that the plans would vary from State to State, because there are problems more urgent in some than in others. The State colleges would be the ones primarily to suggest these plans, because they are better acquainted with the conditions and with the people, and when they come with a plan for the work, our people would go over it with them and, of course, usually would indorse the plan and proceed with the work. But it seems to me very wise to have a definite thing or things in mind and outline them before you undertake operations. That is usual in any line of business. The number of directions which you might take, either in agricultural investigation or in carrying agricultural information to the farmers, is almost infinite, and that necessitates a more careful consideration of the direction in which you are going and what you are going to undertake. But, of course, having a definite plan or plans in mind would not shut off the agent or college or department from giving any incidental information. However, taking into consideration that appropriation of \$20,000 in a State in any one year, obviously you would want to use that amount to the best advantage, and you want to know definitely what you have in mind, what you are going to execute, and what directions you are going to give to your agencies. That is practically what I mean by "project." It is something that every man has in his mind more or less vaguely, and the thing to do is to get it in mind definitely. There is nothing new in that, and it is in line with university work generally. For instance, take the medical college; it will have 20 different divisions, and each division makes out its project and presents it to the board of regents for examination before the appropriation is made; and so, in this field, the same systematic course can be followed.

Mr. SLOAN. Would there be such flexibility in the projects laid out for the year, relating to certain work or demonstrations, that, if something should arise, such as an epidemic among live stock, the project could be shifted from the original purpose and the efforts of the demonstration agents directed to some more pressing condition?

Secretary HOUSTON. I think the bill would permit that beyond any question.

Mr. SLOAN. For instance, recently our people were interested very much in a number of things—in raising horses, for instance—now, could the project, after being laid down, be diverted so that the demonstration would cover other subjects? In other words, is there such flexibility in the bill as to make that possible?

Secretary HOUSTON. There is nothing in the bill of that sort. The bill says that plans must be made before the money is to be given to the State, but there is nothing in the bill that would prevent a feasible or practicable modification of the plan as agreed upon by the two departments. Of course, it might be that the plan would involve such a direction of the money that it would be difficult to divert it, but that would follow whether you had a plan agreed upon or not.

Mr. HEFLIN. Is it true that under this bill more farmers would be reached with this demonstration work, that more men will be engaged in the work, and that it will redound to the greater advantage of the farmer?

Secretary HOUSTON. I think so. There is this to be considered: There are some States not now doing any work of this kind; there are some States in which a great deal of this work is being done, and, I imagine, there are some States already appropriating more money for work akin to this than the Federal Government will be giving them; but, on the other hand, just as there are some States not now making appropriations for experimental work to meet the large appropriations that the Federal Government is making, so there are some that have made no provision for extension work. I know of one State the legislature of which recently made an appropriation for extension work and the governor cut it out. That State is therefore in the position of expending considerable sums of money for agricultural investigations with no provision for getting the results to the farmers. Now, this bill would probably act as a stimulus and such appropriations would probably be made and would probably remain. That seems to me to be a good thing. It will probably induce States, in which the agricultural colleges are giving most of their time to mechanics and have very little information to reach the farmers, to get in touch with the farmers. I think, therefore, that it will have not only the effect of causing the money to be used more wisely, but I think it will have the effect of stimulating some of our States to make provision for getting this information to the farmer.

Mr. HEFLIN. Will the men who are to do this work be selected in the same manner that they are now selected by you?

Secretary HOUSTON. I understand that primarily they will be State officers working in touch with the State offices and college offices of extension, just as the experiment-station workers in the various State colleges are primarily regarded as members of the college staff. ] ✓

Mr. HEFLIN. Then you would have nothing to do with the selection of the men who are to be selected in the States?

Secretary HOUSTON. Practically so, but I do not anticipate, on the whole, that the selections would be less worthy than those we make at a distance.

Mr. HEFLIN. This bill would not disturb those men who are already in the field, would it? There is no danger from this bill that those men who are now doing good work in the field will be disturbed?

Secretary HOUSTON. I should think that the States would willingly attach these men to their offices of extension.

The CHAIRMAN. On account of their experience?

Secretary HOUSTON. Yes.

Mr. McLAUGHLIN. In section 2 of the old bill there is a proviso "That nothing contained in this act shall be construed to interfere

with either the demonstration of farm-management work as now conducted by the Department of Agriculture and known as the Farmers' Cooperative Demonstration Work and Farm Management Work." I have not examined the new bill as carefully as I should, but I do not see that proviso in section 2 or anywhere else, in so many words.

Secretary HOUSTON. That proviso, as I understand it, is not in this bill.

The CHAIRMAN. It is not.

Mr. McLAUGHLIN. Is it the idea that this work will take the place of that, and that the appropriations made for that former work will be discontinued and that all of the work will be done under this appropriation?

Secretary HOUSTON. Yes; the theory being that we will get better results by doing it in cooperation with the colleges than by doing it directly through the Federal machinery.

Mr. McLAUGHLIN. But it would not be advisable to discontinue the appropriation all at once for the work that is now going on, because this bill appropriates only \$10,000 for each State the first year.

Secretary HOUSTON. I think the present work should not be interfered with, but extended—

Mr. McLAUGHLIN (interposing). The present work should be extended?

Secretary HOUSTON. I mean that the sum total to-day of extension work; that is, of the work we are now doing, ought not to be crippled while the other is getting on its feet.

Mr. SLOAN. Would you continue both appropriations for the year?

Secretary HOUSTON. We should make such provision as may be necessary to keep up the work. That is a matter that must be worked out carefully in the estimates.

The CHAIRMAN. The present organization would not be interfered with at all until this bill became operative.

Secretary HOUSTON. Later on, of course, when this bill gets into operation, this will cover the work we are now doing.

Dr. GALLOWAY. I might state for the information of the committee that we are expending for this work \$168,000 out of the appropriation for farm management. We have an additional appropriation of \$350,000 for farmers' cooperative demonstration work in the South. In addition to the \$168,000 we are expending the difference between \$325,000 for farm management and \$168,000, namely, \$157,000, in investigational work in farm management. That work will necessarily be continued, because it is for the accumulation of evidence and facts that will be used by the demonstration office, so that the Office of Farm Management would probably continue to exist as it is now, except that the demonstration office and work will be handled in one central office, combining all the demonstration work.

Mr. McLAUGHLIN. You spoke of expending \$168,000 in this kind of work. The appropriation was \$375,000 for this fiscal year—

Dr. GALLOWAY (interposing). There is an appropriation of \$350,000, but this \$168,000 is expended exclusively for this county demonstration work, and the rest of it is expended in investigations and farm-management work. Whenever questions arise involving farm economics, machinery, and many other problems that have never been made the subject of investigation, we must make the investiga-

tions before we are in a position to direct the farmer and advise him in the matter and in the management of his farm as a unit.

Mr. McLAUGHLIN. After making investigations in which you use this money above the \$168,000, as you go along, will there be more of that appropriation available for cooperation in county work?

Dr. GALLOWAY. Yes; that will be the case naturally.

Secretary HOUSTON. May I emphasize the fact that I do not suppose anybody had it in mind that any work we are now doing in demonstrations would be discontinued or that the amount of it would be lessened under this arrangement. We shall have to make an adjustment of the appropriation and an adjustment ought to be made by which that work will go forward as fully as it is now going forward, and as this other work comes on, of course, the old work may be discontinued as a specific undertaking.

Mr. McLAUGHLIN. When this bill was considered in the House, we found that there was an apprehension in the minds of some Members that the demonstration work was to be discontinued and the work provided for in this bill substituted for it, and in order to safeguard that and make it clear that that old work was not to be discontinued that proviso was put in. Now, would it not be advisable to incorporate in this bill we are now considering a safeguard of the same kind by providing that the old work shall be continued and finally merged into this work, with an increased appropriation?

Secretary HOUSTON. In the first place, I insist that this is a continuation of that work, and the only question, as I understand it, that you raise is whether there is danger of discontinuing that work before this machinery gets under way.

Mr. McLAUGHLIN. Yes, sir.

Secretary HOUSTON. That ought to be guarded against.

Mr. McLAUGHLIN. Would it be advisable to put a provision of that sort in this bill?

Secretary HOUSTON. I think that could be taken care of in the estimates.

Mr. McLAUGHLIN. That question will be raised when we consider this bill in the House.

The CHAIRMAN. This proviso was put in the bill on the floor of the House. The committee did not raise any objection to it, because they did not attach very much importance to the proposition. So far as I am concerned, I have no objection to its going into the bill again.

Secretary HOUSTON. We will undertake in the estimates for the department to provide for that until this bill goes into full operation.

Mr. Moss. I would like to ask one general question. The proviso in the other bill would seem to indicate a perpetuation of the present method, whereas this bill ultimately means that the agricultural colleges shall assume leadership of the Federal Government or of the Department of Agriculture in this particular work, does it not?

Secretary HOUSTON. I should hardly put it as a matter of leadership—

Mr. Moss (interposing). I remember very particularly the debate on the floor of the House. You take, for instance, a State like Indiana; we are working on a plan developed under agricultural colleges, and I take it for granted that under the terms of this bill there will be in all States some degree of leadership recognized in the agri-

cultural colleges, but, until that time, I assume, of course, the present management will be maintained?

Secretary HOUSTON. Yes, sir.

Mr. MOSS. The practical question is whether the money appropriated for demonstration work is to continue. It would not be discontinued, would it?

Secretary HOUSTON. No, sir.

There is one other point the chairman raised which I overlooked at the time. Congress has placed upon the Department of Agriculture the exceedingly important task of beginning the study of crop distribution and marketing, and that is the most complex, difficult, and relatively, I think, the most important problem in agriculture to-day. Now, in that field, I think, we shall get a great deal of information that will be of service to the farmers, and that information will have to be taken to them just as carefully and completely as any other part of the information we secure.

Mr. MAGUIRE. Do we understand that this proposed line of work will include all the demonstration work now being done associated with hog cholera, Texas fever, cattle ticks, and other subjects?

Secretary HOUSTON. I can conceive that the Bureau of Animal Industry, through its own officers, may have to retain a very definite control of specific problems, but there will be no difficulty if a plan should be devised by the Department of Agriculture and the State colleges for giving information to the farmers and reaching them more intimately on specific problems like that. If the Bureau of Animal Industry has collected definite data that it desires to have the farmers know concerning hog cholera or anything else and it should be thought a wise plan to undertake to carry that information to the farmers through this machinery, it will be done, but it would not be necessary to give it the exclusive handling of that problem.

The CHAIRMAN. Your idea, I think, is my own in reference to this bill, and that is, that the local man on the ground is to be the machinery through which the Department of Agriculture and the agricultural colleges and experiment stations will make known to the farmers on the farms such information as they think will be valuable to them.

Secretary HOUSTON. Yes, sir.

The CHAIRMAN. If the information happens to relate to the subject of hog cholera, that information will be made known through this agency, or if it happens to relate to the matter of cotton grading, or something of that kind, it will be made known in the same way. If the information happens to relate to the matter of marketing celery or onions, or something of that kind, these men will constitute the agency through which the Department of Agriculture and the colleges will get their best information to the men on the farms. Is that a correct statement of it?

Secretary HOUSTON. Yes; and this will not interfere in the slightest degree with those special agencies that are tackling special problems. Of course, unless they have information that is worth while to give these other agencies can not use it.

Mr. HEFLIN. In section 1 there is a proviso—

That in any State in which two or more such colleges have been or hereafter may be established the appropriations hereinafter made to such State shall be administered by such college or colleges as the legislature of such State may direct.



Secretary HOUSTON. That is the usual provision.

Mr. HEFLIN. Could not the legislature of that State direct that this work should be done through the secretary of agriculture of that State in connection with the colleges?

Secretary HOUSTON. Under this bill, of course—

Mr. HEFLIN (interposing). Do you think it wise to amend the bill so that the secretaries of agriculture in the various States could be in direct touch with you, so they could cooperate with you?

Secretary HOUSTON. Personally, I think not. Of course, that is one element that you are going to hear from. It has been the policy of the Federal Government up to this time to work through the State land-grant colleges. They were created originally for that specific purpose, and everything, so far as I am aware, that the Federal Government has undertaken to do for agriculture in the States has been done through this agency, originally created for that purpose. They are the only agencies at present existing in most of the States that have the support or machinery, with the right bias of mind and attitude, to undertake this work efficiently. Very many of the State departments of agriculture are not especially well supported. Their officers are not always men of skill, and they are frequently without a continuous policy.

Now, the State colleges ordinarily have a higher degree of stability; they have many scientists; they are doing this work in a variety of directions, and it seems to me, for these reasons as well as for the reason that the policy of the Federal Government has been to work through them, that that plan ought to be continued. I am aware of the fact that there are commissioners of agriculture in several States who would like to see this bill so drawn as to make the cooperation exclusively with them or optional with the State, but I believe, for the reasons I have indicated, that it would be a mistake. For instance, I do not happen to know anything about what machinery the State of Wisconsin has, outside of its university where the land-grant college is located, for dealing with agricultural problems, so that, as you will understand of course, I can mention it without any criticism, because I do not know anything about it. But I do know that the University of Wisconsin has one of the most satisfactory and scientific agricultural establishments in the world for discovering agricultural information and giving it to the farmer. Now, it seems to me that it would be a waste for you to go outside of that institution for cooperative effort and set up another agency that has not the facilities of the university. I think these remarks will apply to probably every State in the Union.

The CHAIRMAN. Are there any other questions, gentlemen?

Mr. HAUGEN. I understood Dr. Galloway to say that the department had under consideration a plan that would bring about greater cooperation in the department.

Secretary HOUSTON. It has.

Mr. HAUGEN. I want to call your attention to the defect in the system. For instance, the Weather Bureau has an appropriation for a building, say, in San Francisco.

Secretary HOUSTON. Yes, sir.

Mr. HAUGEN. And it sends its agent out there. The Forest Service has another appropriation for a building in the same town, and it sends its agent out there. You have two men traveling in the

same direction, in the same territory, and doing the same character of work. In other words, you have the expense of two men traveling and the services of two men in doing what one man could do at just one-half the expense.

Secretary HOUSTON. I think the instance you give would be a very good one. A gentleman who is sent out to locate and plan a building for forestry purposes in Montana——

Mr. HAUGEN (interposing). For office purposes in the city of San Francisco, for instance.

Dr. GALLOWAY. There would not be a building in any city.

Mr. HAUGEN. Offices.

Dr. GALLOWAY. They rent them.

Secretary HOUSTON. I had in mind a proposal to erect a building for the Weather Bureau; that is, for Weather Bureau purposes. Those purposes are essentially different from those for which any forestry building would be erected. I would as soon send a preacher to handle a law case as to send a forestry man to plan or erect or secure a location for a Weather Bureau building. It so happens that a Weather Bureau building is a very difficult thing to locate. There have to be specific conditions surrounding it that a forestry man may not be a good man to judge of. The truth of the matter is that the most of these things are very specialized, and it does not follow that a man in one department can easily execute them for another department.

So far, however, as any duplication of work anywhere in the department is concerned, I would be glad to discover it and to put an end to it. As Dr. Galloway has said, I think there is some lost motion in the Department of Agriculture along the line I suggested when I was discussing the relation of this office to animal husbandry and plant industry, and we are now considering a plan which will eliminate all that lost motion. If there is anything further that we can do in devising a plan, which we hope to be able to submit to the committee, of course we shall be delighted to do so.

Mr. HAUGEN. I think that is very important, and I am glad to know it.

Secretary HOUSTON. We have in one office discovered about 25 people who were unnecessary.

Mr. HAUGEN. I am glad to know that.

Secretary HOUSTON. And we have taken steps to eliminate them. We have discovered in another important bureau quite a considerable number of activities that were really undesirable, and we have undertaken to eliminate them, and I hope, as we go forward, that we shall be able to eliminate everything that is undesirable.

The CHAIRMAN. Those are matters which will be brought before the committee when the regular bill is under consideration?

Secretary HOUSTON. Yes, sir.

Mr. HEFLIN. It strikes me that the secretaries of agriculture in the various States should in some way be associated with this work, either as members of an advisory board or in some way; that could be done by an act of the legislature.

Secretary HOUSTON. That should be done by the States.

Mr. HEFLIN. There is nothing in this bill which would prevent that?

Secretary HOUSTON. No, sir. There are several very unfortunate situations in our States. One is that the different State institutions are fighting one another and are jealous of one another, thinking more of institutional advancement than the people.

Mr. YOUNG. That is very largely true in Texas.

Secretary HOUSTON. Yes; and in other States. The same thing happens in the State departments of agriculture, and each one wants to convince the people that he is doing the job. If any way could be discovered by which the agricultural machinery of the States could be coordinated, as we are trying to coordinate ours with theirs, then you would work a revolution, but that is a State job.

Mr. SLOAN. I note that a large amount of this appropriation will be used in paying the salaries of demonstrators, probably. Do I understand that in the matter of the salaries of these demonstrators and in directing them the General Government retains the same amount of authority coordinate and coequal with the State, or is that surrendered to the State?

Secretary HOUSTON. Practically to the State.

Mr. SLOAN. The reason I asked that question is this: By surrendering to the State the appointees will be probably almost exclusively from the State, and is it not true that some of the most valuable demonstrators are men who are taken from another State, with a different point of view, that they may in the new situation bring that which is best from the State, and if the Government retains at least a part of the say in who should be the demonstrators would you not get generally a better result? For instance, we think a great deal of the people of our State and that our demonstrators would be efficient, but I have no doubt that by bringing a man from Texas, Wisconsin, or another State where there had been special conditions, or where the industry had been developed to a higher degree than in our State, better results would be obtained.

Secretary HOUSTON. I think there are two things which must be borne in mind. Of course, you realize that this is exactly the same situation with respect to the other Federal appropriation for experiment station work where, in some States, the colleges select those officials. So it is in the college work for which the Federal Government makes an appropriation. On the whole, considering the material available in this country and the salaries that they pay, I suppose that the colleges make about as wise selections as could be made.

As to your second point of getting a man who has had experience elsewhere. I think these gentlemen will bear me out as to the difficulty we encounter in getting men, and the work of many other institutions is undoubtedly hampered by constantly seeking men and having to get them from the outside. I do not think that the colleges are suffering from a lack of new blood or from a lack of men who have had experience elsewhere. Whether or not it would be desirable to incorporate a provision of that kind, I am not prepared at this time to say, but let us try to get into our minds that we are suggesting nothing new when we are depending upon the States to select the local machinery. By the advance made in this bill we are coordinating the machinery, and the Federal Government will have a fuller opportunity to consult with the States about the plans and machinery than heretofore.

It would be inconceivable to me, if President Thompson were discussing these plans, that he should not want all the information we have about men who can do this work, and it is inconceivable to me that I should not feel free to suggest to President Thompson any man that I happen to know; and I think that we shall be brought into a position of consulting about these matters instead of one of apparent hostility. There has been some little friction, but I think it has grown mainly out of the fact that there has been no definite putting of heads together all along the line.

Mr. HEFLIN. If we could get the secretaries of agriculture in the States interested in it and on the board in some official way, it would work out to great advantage.

Mr. REILLY. There is no secretary of agriculture in some States.

Mr. HEFLIN. They call them commissioners.

Mr. REILLY. In our State it is entirely under the board of regents of the university and the dean of the university.

Mr. HEFLIN. Do they not call them commissioners?

Mr. REILLY. No, sir; most of our Western States have agricultural colleges.

Secretary HOUSTON. That is a matter for the State legislature.

Mr. REILLY. In Wisconsin every year they have one week for the farmers of the State, and they gather at the capital in thousands, where for one week they go through the different lines of progressive farming, as they call it. Then, they have a series of farm institutes, where they send out specialists to instruct in methods of soil culture, animal culture, and methods concerning the best ways that have been discovered at the Wisconsin experiment station. Then, they issue an extensive line of bulletins, as the Agricultural Department does here. Those are distributed all over the State.

Secretary HOUSTON. If I may be permitted a suggestion, I would limit the State boards of agriculture to administrative work and give the educational work to the colleges. I think the trouble is that in many of the States the State departments of agriculture are not equipped to do educational work. They are trying to do it and are conflicting with the colleges and competing with the colleges. I should make the commissioners or agriculture administrative, and I should give the educational work to the colleges. I shall be glad to answer any questions.

The CHAIRMAN. We are very much obliged to you, Mr. Secretary. I will now ask Mr. Holder to make a brief statement.

#### STATEMENT OF MR. ARTHUR E. HOLDER.

Mr. HOLDER. Mr. Chairman and gentlemen of the committee, I represent the American Federation of Labor, as its legislative committee, and I feel that it is only proper that I should be here to-day to make an expression concerning the attitude of the members of our organization toward this subject.

I think it is generally known that for several Congresses we have favored the older plan or the former plan of connecting this subject with the industrial-trade training that was incorporated in the old Dolliver-Davis bill and afterwards in the Page-Wilson bill, which has been argued before this committee twice and before the Senate Committee on Agriculture several times. However, I am commissioned

to say for the executive council of the American Federation of Labor, which is now in session, that it realizes the importance of the general principles contained in this feature of the Lever bill, which was a part of the former bill advocated and urged by our organization. If we can not get all we want in one bill, we are perfectly willing to assist and cooperate with the committee wherever we can and with the agencies, educational and administrative, to do something in behalf of the general principles contained in the Lever bill. I think, Mr. Chairman, that is all it is necessary for me to say at this time, and I thank the committee.

The CHAIRMAN. We are very much obliged to you, Mr. Holder, and I assure you that the committee appreciates your coming.

We shall now be pleased to hear from President Thompson, of the University of Ohio.

#### STATEMENT OF DR. W. O. THOMPSON.

Dr. THOMPSON. Mr. Chairman and gentlemen of the committee, I have appeared before you so often that I shall be very brief. I regret that the gentleman who has just finished making his statement has left the room, because I should have liked to say to him that the association of agricultural colleges in the States certainly favor the bill and the principle of vocational training. There is no antagonism to that principle in this bill, and that is one consideration of the bill, it having other features.

This bill has been so illuminatingly discussed this morning that I have the necessity of saying very little. This extension work is essentially teaching work. We have been teaching by one method and another in our industries. We are teaching largely by the laboratory method—that is, by demonstrating to the pupil or the student the thing that we are trying to teach. For 50 years we have been going on in these colleges teaching by demonstration in our laboratories and by other methods. Now we are proposing to go out to the people with the school and teach by such methods as are practicable, chiefly the demonstration method. Pardon an intimate reference, but we are discussing the question of projects, and this year one of our men in Ohio, after consulting with the president and the superintendent of the agricultural stations, proposed to spend his vacation, or about 60 days of it, on the farms of Ohio.

Accordingly, we got up a schedule, and we sent around, over northwestern Ohio chiefly, the information that this gentleman would appear in certain communities at certain times, according to the schedule, while the crops were just harvested and some were still growing, and discuss the condition of the crops in that part of Ohio. The result was that from 30 to 50 farmers gathered together in a community and went out over the farms within an area, examined the soil on the farms, investigated the condition of the growing crops, and would come back to the barn or possibly under the shade of some tree and spend two or three or four hours in discussing the condition of the crop, why the condition was such as it was, etc. The reports are now to the effect that this has brought to those farmers more information of a desirable sort than any farmers' institute, because they were able to discuss the growing crops right on the ground. We paid for that out of the extension funds of the State of Ohio. We never

had such a thing before. Probably we shall do something similar again. That is a distinct project; we have never attempted it before. That is teaching by a new method; that is all. It is teaching differently from the institute or in the classroom or anywhere else, but it is done by our professor, who himself had a most delightful experience and who came in brown as a berry and in fine shape for the fall work, having seen perhaps 2,000 different farmers in the 60 days. That result we regard as legitimate extension work and as essentially teaching work, and the essential feature of this is cooperation between the Secretary of Agriculture and the States.

There is only one thing that I have in mind, and that is the tentative agreement entered into by the colleges with the department last spring, which has been cordially received in every part of the Union and will be a matter of discussion and consideration at the meeting here in Washington next November, and that is with reference to the investment that the Federal Government has been making for 50 years in these agricultural colleges. It looks to us as if we should get closer together, with a better organization, a more efficient expenditure of money, and a better understanding than ever before. These colleges and stations are the places where the Federal Government has been pouring in money—for 50 years in the colleges and 25 years in the stations. One feature of this bill is that \$10,000 a year shall be apportioned to a State, but if the State does not react it can not have any additional expenditure. That reaction is the most essential thing we need in agricultural college life to-day. There are just three things which we do. We start with the proposition to discover agricultural knowledge or science and undertake to teach it to the limited number who are available in the agricultural schools and colleges.

Now, we are going to the farmers' institutes and other agencies, but our practical difficulty is to get the reaction of the individual farmer, the thing that ought to be done. The director of stations in Ohio has stated that within five years the agricultural produce of Ohio could be doubled if the farmers of the State would do what the experiment station says and has demonstrated can be done. Now, the practical problem is to get to every farmer and have him understand that that thing can be done and get him to react. The Federal Government is trying to get reaction from the States by saying, "We will give you \$1,000 if you will give \$1,000; we will go half way with you on this project, and if you will furnish the other half we will furnish the first half."

The Federal control of its own money is an essential problem and a very practical situation. If any criticism could be made of Federal expenditures for 50 years in the colleges and stations, I should say that it could be directed against the lack of careful supervision of the expenditure of its money. It has been called a post mortem or audit, and the Nelson amendment of 1907 proceeded to say that this money should be used in a certain way, and the second Morrill Act proceeded to say that the money should be expended in a certain way. Those acts grew out of the fact that there was a feeling of the careless expenditure of money.

Now comes along the extension field, which admittedly is the largest area, and therefore the least subject to supervision, in which it is proposed that before the money is expended the Department of Agricul-

ture, representing the Federal Government, and these colleges, representing the State governments, shall get together in a friendly council and lay out the projects, and provide, as far as human agencies can provide, for the wise, economical, and efficient expenditure of this money. Gentlemen, it seems to me that that feature of the bill is the wisest feature of the whole matter and ought to commend itself to State and Federal agencies alike. And so, speaking for the Association of Agricultural Colleges, I should say without hesitation that that is a very desirable and wise feature. Now, my friend Mr. Haugen has said something about State rights. The curious thing is that the advocate of State rights is now in the North, whereas he used to be in the South, and that is exactly the thing I think this bill provides for. For example, why should we in the State of Ohio object to the Federal Government expending its own money in a way it can approve? I do not see that we as a State should make an objection to that. Now, this bill does not anticipate that the States shall not have the liberty to determine what shall be done in any line in which the States may be interested.

Mr. HAUGEN. The bill provides—

That no payment out of the additional appropriations herein provided shall be made in any year to any State until an equal sum has been appropriated for that year by the legislature of such State.

Dr. THOMPSON. Yes; but the bill does not provide for all of the things that may be done by the States. In that connection I want to make some reference to the matter of hog cholera. In the State of Ohio we are making a test in Fayette County. After due deliberation a special appropriation has been made for Fayette County in order to test whether hog cholera can be eliminated from that county or not. That county was agreed upon because it represented a variety of conditions in Ohio and it was thought that if we could eliminate hog cholera from Fayette County we might free the whole State. We centralized that problem in one county. We have our hog serum farm in Franklin County, but we are making the test in Fayette County, and that does not interfere with what we have been doing in agricultural extension work all over the State, but it localized that one specific problem in Fayette County and the whole State of Ohio will be interested in the next few years—because hog cholera can not be eliminated in 30 days and perhaps not in 30 months—in seeing what is done in that county with that problem. Now, I understand that this proposition does in no way interfere with a State's right to go ahead and do anything it wants to do in addition to anything which might be considered a large problem and of great importance to the State.

The States may have some local needs that do not apply generally to all of the States, and, for example, I will refer to the State of Ohio. We reach from the Lakes to the Ohio River. Up on the Lakes we have peaches, grapes, and a good deal of fruit, where we are protected by the Lakes; in the central portion of Ohio frost is a very unwelcome visitor at very inopportune times, and along the river the farms are protected by the hills. Necessarily there are certain problems to be considered for each division, and, as I say, in the State of Ohio there are three distinct problems to be considered. You will find that the same thing is true in Michigan and in other

States of the Union. Now, the study of those problems through the colleges and stations and the development of this work through a series of years in cooperation with the Federal Government seems to me to open up the largest possibility of usefulness of any field of endeavor into which we have gone in this general way.

Now, something was said a little while ago about good men, to which the Secretary of Agriculture made a very adequate reply, but he will pardon me, I know, for giving a little experience supplementing his reply. In this extension work we have a staff varying from 15 to 20 on full time and then people that we employ for portions of the year as seems to be wise. We have made contributions from our workers to West Virginia, to Kansas, to Wisconsin, to Iowa, and Indiana, and these are, in a sense, like taxes, enforced contributions. We did not want to send them, but we had to do so because they came up with the money and we felt we could not very well resist. Now, we have drawn our workers from other States simply because it was desirable to do so. I believe that the outworking of that plan through the years and through the different associations, especially the Association of Agricultural Colleges, will lead us to a distribution of men and of women who will increase the efficiency of this work.

I have spoken before this committee as to the merits of agricultural extension two or three times; I have been before Congress now for half a dozen years until my voice has got to be "as sounding brass or a tinkling cymbal," and I do not want to speak too much. I only desire this morning to say that I believe the Association of Agricultural Colleges will, when it meets in November, cordially and warmly indorse this bill for passage. I have had some correspondence with members of the executive committee and regret that they are not able to be here. However, I know the sentiment of the committee, and I believe I speak for the association when I say most heartily we shall be glad to see this bill reported. That does not mean that these little details of expression might not be amended. For example, Dean Russell is not quite sure that this provision that the governor shall approve in the absence of the legislature is quite as clear as it might be; I am not sure it is or is not, but that is a matter of unimportant detail. I do not care to speak about those little features, but I do say that the essence of the bill, the distinguishing and characteristic features of this bill are such as ought to be cordially approved, in my judgment, and unless there are questions to be asked, I will thank the committee for its kind attention.

Secretary HOUSTON. I would like to ask Dr. Thompson what he would have to say on this: I have heard a good many criticisms of this kind, that if you get money from the Federal Treasury for various enterprises there is no stopping place, and that they will bankrupt us. Is it not true that this bill as drawn provides an automatic check on that, first, that it places a limit in the bill, and, second, that it requires the States to contribute, and is not that an adequate safeguard in that respect?

Dr. THOMPSON. About that question there are two things to be said. There is no limit to the amount of work that may be done so far as we now know it. Any man who wants to engage in helpful philanthropic or educational work will find there is practically no limit, but so far as aid from the Federal Government is concerned there is a practical limit, and this bill, I think, provides that the



Federal Government's work shall be limited. Now, there are three distinct things that we are proposing for the Federal Government to do. One is agricultural teaching, and we have apparently reached the limit on that; another is the experiment station, and we have reached a practical limit on that through the Hatch and Adams Acts; and the third is this extension work, for which this bill provides a limit. Of course if 10, 15, or 20 years from now the United States feels that these colleges should be further endowed, these experiment stations further endowed, or that this extension work should be added to, that could easily be done, because there would be no law against it; that would be within the discretion of Congress.

These three things now present their natural limitations, and these limitations represent, so far as we can see, the judgment of the cooperating agencies of the States and Federal Government; but there is no doubt about these things being indefinitely extended if it should be thought wise, because Congress always has that power and the States always have that power. I do not believe that Congress would wish to limit the cooperation of the States with the Federal Government, and in this particular work that is vital and fundamental. If in that cooperation we shall demonstrate that the work should be extended, sufficient funds will be given for that purpose; and if it should be demonstrated in the experience of the years that we ought to double our energies, of course that is a matter for the future to take care of; but it will not present itself in the life of the present generation, in my judgment.

The CHAIRMAN. If there are no further questions to be asked, we are very much obliged to you, Dr. Thompson. Have you any witnesses you desire to present to the committee?

Dr. THOMPSON. No, sir; the president of the association is here, but he says he can not speak of this because he is not prepared. I told him I was not prepared, but that I had to speak, and he says he does not have to.

The CHAIRMAN. We would be very glad to hear from him.

**STATEMENT OF MR. E. H. JENKINS, OF NEW HAVEN, CONN.,  
DIRECTOR OF THE CONNECTICUT EXPERIMENT STATION.**

Mr. JENKINS. I think I have nothing to add to what has already been said by the representative of the association. However, I will refer to one question which was raised, namely, as to the direction exercised by the Department of Agriculture in this extension work. A great deal, of course, will depend on the judgment and sense of the man who is appointed director, but if the relations shall be as pleasant with him as they have been with the Office of Experiment Stations, which especially has the direction of the station work under the Adams fund, certainly it will leave nothing to be desired. The Office of Experiment Stations requires from each agricultural station every year, in advance of the work done, a statement of the projects which they will undertake, and I can testify that that has added greatly to the efficiency and value of the station work, and I think that this direction of the extension work by the Department of Agriculture will work equally well. I do not think that I have anything more to say.

The CHAIRMAN. I wish to ask the consent of the committee to publish as a part of these hearings an article by Mr. Forrest Crissey in the Saturday Evening Post a few weeks ago, which, while not entirely in line with this proposition, is at the same time, I think, illuminating, and if the committee has no objection I will make it a part of the hearings.

(Said article follows:)

#### TRAMP TEACHERS.

[By Forrest Crissey.]

#### HOW THE KAISER TRAINS HIS FUTURE FARMERS.

The county demonstrator is fast becoming a big figure in American farming. Under the activities of the Office of Farm Demonstration, operated by the United States Department of Agriculture, the itinerant teacher of better farming methods has for years followed the highways of the South and wrought a peaceful revolution in the crop systems of the cotton country. In the North, however, the wandering farm teacher is still something of a novelty, and there remain plenty of tillers of the soil who regard him as a new-fangled intruder of doubtful antecedents.

By the old-school farmers he is generously suspected of being a good man at making a fat job for himself—a job compounded of equal parts of college theory and the gift of gab. But the burden of the indictment against the traveling instructor is that he is a novelty and lacks the background of solid and established tradition. In spite of his large profession of democracy, no man in America has a more tenacious respect for tradition than the farmer who is still tilling the land according to the rules by which his grandfather raised crops.

This attitude of the older farmers toward the traveling teacher of agriculture is not a trivial matter in its relation to the immediate future of better farming in America, for the farmers of this class still hold the title deeds to most of the farm lands under cultivation. This fact should never be forgotten by the man who hopes to "do something for the American farmer."

It is well, then, to ask: Has the county demonstrator, the traveling teacher of agriculture, anything behind him in the shape of solid tradition and convincing precedent that the man who clings to old traditions and the established order of things is bound to respect? Have they tried this thing out in any country of the Old World where all things are done thoroughly and where it is a virtue to make haste slowly? Is the traveling teacher of farm methods the rank innovation that he seems, or is he, perchance, an Americanized adaptation of an Old-World institution that has been developed in the practical way that the older nations have of testing methods before giving them the seal of approval?

The traveling teacher of farming is an Old-World institution. Along with many of the most serviceable things used in this country he should bear the trade-mark, "Made in Germany." He is the product of one of the oldest and most conservative countries of Europe—and one of the most scientific and efficient, too.

Not long ago Mr. Edwin G. Cooley returned from two years of investigation in Germany, where he was sent as the educational industrial commissioner of the Commercial Club of Chicago.

"The farm demonstrator," declares Mr. Cooley, "is so new in America that he is good for a first-page story in almost any metropolitan newspaper having a country circulation. In the Empire of the Kaiser he is an old story—a tried and tested cog in the great educational machine of a country that leads the world in educational methods."

#### WHAT GERMAN FARM BOYS STUDY.

"Here a large proportion of our farmers—those who cling to the ancient traditions and the time-honored methods—look upon the county demonstrator as an intruder, an educational interloper, a half-baked and rather expensive experiment. Over there the traveling teacher is an established part of the rural landscape, as firmly rooted and familiar as a field of red cabbages. If you hit the country roads at the right season of the year in Prussia you are as certain to encounter one of these tramping teachers of farming as you are to meet the omnipresent military officer in the town. The Wanderlehrer is no experiment there. His status is settled and his value in the great educational scheme of the Empire is fixed and permanent. He is there because the far-

sighted men who worked out that remarkable and marvelously complete educational plan saw that he was needed to discharge an educational function that no other kind of teacher could discharge.

"When the great thinkers of Germany recognized, a few years ago, that their natural material resources were limited and that the greatest resource of the Empire lay in the potential skill of its workers, and that this resource must be developed to the highest possible point if Germany was to hold her own in the great competitive struggle of nations, the farming industry came in for just as searching an analysis as any other industry then operating in the Kaiser's domain.

"The lowest unit in the educational system for the German farmer, as it was at first planned, was the winter village school. Later the great minds that were planning this comprehensive scheme of vocational training came up against the fact that fully 70 per cent of the children of Prussian farmers were practically debarred from attending any of the higher agricultural schools and that they could attend the agricultural school in the village only during the winter months, because their labor was essential to the farm from the time the ground was prepared for planting until the harvest was finished. It was then that the creators of the German educational system added another unit to their plan—that of the Wanderlehrer.

"Of all the teachers on earth the Wanderlehrer is undoubtedly tightest to his job. In the winter months, in the village school, he lays the foundation of his farm instruction so far as its theory is concerned. But the moment the cropping season starts this school is dissolved, the children go to the fields, and the Wanderlehrer 'hits the pike' with a few personal belongings in a bundle on his shoulder. Before following the tramp teacher on his rounds from farm to farm it is well to know the ground that he has been covering with his pupils in the winter season. Here is the course of study followed in almost 300 winter agricultural schools in Germany:

"1. Cultivation of the ground, general field and plant culture, theory of fertilization for special plants.

"2. Teaching of the breeding, feeding, and handling of domestic animals.

"3. Zoology and veterinary science.

"4. General business instruction.

"5. Agricultural chemistry.

"6. Physics.

"7. Plant culture.

"8. Introduction to the forms of business correspondence.

"9. Theory of the principles of farm management.

"10. Agricultural bookkeeping.

"11. German language.

"12. Arithmetic.

"13. Geometry, surveying, and drawing.

"14. Fire brigades.

"All of the teachers and a large percentage of the assistants are graduates of the higher educational institutions. Each is really an expert in his agricultural specialty. The farm boy who spends the winter under the kind of drilling to which he is subjected in one of these schools carries back to the farm with him in the spring a grounding in the fundamental theory of agriculture that would undoubtedly do credit to a student in any agricultural high school in America.

"Going to school in Germany is not an indoor pastime or a side line to the business of athletic sports. In these winter schools the work is alive with a fine earnestness, a splendid enthusiasm on the part of both pupil and teacher, and to spend a day in one of these schools is an inspiration to an American teacher. Doing so can not fail to give him an understanding of the wonderful equipment that the German farmer of the new generation will carry to his work as a food producer.

"Kaiser Wilhelm is said to have made the boast that the time is soon to come when, if Germany were isolated from the whole world by an impenetrable trade wall, she would be able to meet all the needs of all her people. To come into touch with the spirit of these winter schools and then to follow the Wanderlehrer on his pilgrimage from farm to farm through the whole growing season, is to be forced to the conclusion that the Kaiser's declaration is certainly no idle boast. While the equipment of most of these winter schools can not be described as elaborate, it is certainly ample, especially when the fact is taken into consideration that the real demonstration work is to be done in the fields of the farm homes from which the pupils come."

#### OBJECT LESSONS IN THE FIELD.

"The big event on the little German farm is the periodical visit of the Wanderlehrer. This tramp teacher is treated with the greatest respect and given every honor that the peasant farmer can bestow. From sunrise until sunset the Wanderlehrer is in the field

with the boy of the farm home, focusing into actual practice on the soil the theories that have been discussed during the winter in the schoolroom. Incidentally, of course, the father and older brothers crowd about the tramp teacher and absorb the instruction that he is giving to the boy who has been his winter pupil. But for at least once in his life the small boy is the center of the family; and the Wanderlehrer never loses sight of the fact that his attentions must be centered upon his pupil.

"Every crop and every animal on the farm passes under the inspection of the Wanderlehrer, and in the evening the observations of the day are reviewed and again discussed, and each member of the household is given opportunity to ply the traveling instructor with questions."

But the German farm boy has no monopoly of the benefits of the itinerant teacher who brings education to home and field, where its practical value is bound to be tested in real results; the Prussian farm girl is also visited by a Wanderlehrerin in petticoats. According to Mr. Cooley, the skirted traveling teacher of the future housewives of the farm home is fully as important a factor in the scheme of carrying practical education to the home of the farm peasant as is the Wanderlehrer in trousers—and perhaps a bit more important. Because the German father is almost invariably a good feeder, and life without its pleasures would from his point of view be a failure, he welcomes this colporteur of the gospel of efficient kitchens and sanctions any teaching of hers that promises to improve his table.

Then, too, thrift is the first commandment among the farmers in the Kaiser's country, and the Wanderlehrerin never fails to make a "home run" in holding out to the housewife the promise that the education she is dispensing will yield the fruits of practical economy, give better results at lower cost, and "save a pfennig here and there." So long as the Wanderlehrerin in skirts is under the roof of the farm home she is in practical command of the kitchen and of all the home activities that fall to the lot of the average German housewife.

Her teaching is intensely practical. She is as tight to her job as is her brother educator who follows his boy pupils from field to field. All her instruction in the art of cooking is keyed to the demands and conditions of country living. She lays strong emphasis upon the salting, curing, smoking, and cooking of meats of every sort, the handling of milk and the making of cheese and butter. The preserving of vegetables and fruits is another cardinal point in her curriculum. The care of poultry, of pigs, and of calves is a standard part of the German housewife's duties, and the Wanderlehrerin is an adept in these arts, giving her instruction by example in the feed pens.

Another subject never neglected by this wandering woman missionary of better farm living is the matter of hygiene and sanitation in the farm home. Each *fraulein* is given simple, practical lessons in the care of the sick, and any unsanitary condition in the home is promptly pointed out to the family. As the woman of the German farm is the official gardener, the subject of garden management is always covered by the visiting teacher. Laundry work and needlework of every sort are carefully taught by these itinerant teachers, with the result that the average girl in the German farm home is a sounder and shrewder judge of fabrics and their value than are most American women who have generous charge accounts at the big metropolitan stores.

This outline of the work done by the German Wanderlehrer is too scant to give an adequate idea of its full scope, but it will suggest something of its thoroughness and practicality. It is real farm education reduced to its simplest terms, stripped of every frill and carried to the kitchen and the field, where the boy and the girl will work for years to come—in most cases for the remainder of their natural lives. It is a training that meets conditions as they are and in their own terms, not an effort to force upon the pupil the education that he ought to have if he were to become chancellor of the empire instead of a peasant farmer.

But how does all this hook up with the boy and the girl of the American farm? It doesn't—not at present anyhow. And this is right where the trouble comes. However, there is a growing conviction among American educators that the time has come for us to learn something about lower education from the Kaiser and his countrymen—especially about the education of the farmers' children. And some keen, progressive school-teachers are feeling their way to practical results in this new field.

#### MR. HOLDEN'S STUDY OF CORN.

Few educators in America are closer to farm conditions and to the future farmers that are now carrying their lunch pails to the district schools of this country than is Prof. P. G. Holden, formerly of the University of Iowa, at Ames. He was country-born and has kept close to the farm and the "little red schoolhouse" throughout the whole of his career. He worked his way through the Michigan Agricultural College by teaching in a district school for nine terms. Later he was elected county super-

intendent of schools for his home county, and in all of the more important positions he has since filled he has never lost his intimate touch with the farm home and the children of that home. If any American educator who has achieved the title of professor is entitled to be considered the spokesman of the country school, that man is undoubtedly Prof. Holden. What does he think of the German Wanderlehrer system and of its possibilities as an object lesson to America?

"Real education," declares Prof. Holden, "is teaching the boy in the terms of his own life. You never really reach him until you do this. There is something in the home environment of every boy that holds the possibility of awakening his sleeping faculties to action—not one thing generally, but many. And these things are almost invariably connected with practical work of some sort, usually with the activities of the life going on about him outside of the school. Boys and girls are interested in doing things, not in the abstract speculations with which the textbooks are so largely filled.

"Long before I knew of the wonderful Wanderlehrer system, by which Germany is developing the boys and girls of her small farms, I saw the force of the principle on which that system is founded. In fact, my convictions on this subject forced me into becoming an amateur Wanderlehrer myself.

"I was then teaching a little district school in Michigan and was about as unsuccessful as the average country school-teacher. A few of my pupils seemed to show an almost human interest in their studies, but with most of them study was merely a matter of going through the motions. When it finally dawned upon me that perhaps this deadly indifference was quite as much the fault of the system, the textbooks, and the teacher as the fault of the pupils, I determined to see if I couldn't find out what the boys were really interested in and so meet them on their own ground.

"Boys," I said to them, "about the biggest thing in this country round here is corn. When anything threatens the corn crop you can read it in your father's face. And when a big crop of corn is harvested you begin to count on a fat Christmas and other good things at home. Now, it seems to me that we ought to look into anything as important to all our homes as corn and see what we can learn about it. Perhaps we could find something that might help your fathers to get a larger and surer crop. And because common sense teaches us that to get a good crop we must have good seed, let's have a little seed show of our own, right here in school. I'd like to have every boy ask his father to pick out the best ear of corn grown in his field. Then we'll get them all together and talk it over."

"The instant this proposal was made I saw a new light appear in the face of Dick, the dullest boy in school. He seemed to awaken suddenly. Book lessons were remote and unreal to him, but corn was tangible and interesting. Every boy brought an ear of corn, selected as being the best that the home farm had produced. It was the liveliest day that schoolhouse had ever seen. The dull boy was fairly tingling with interest. I judged those ears as carefully as I ever judged any corn later in life at any national corn show. The grading of each ear was explained in detail and discussed until every boy agreed that the decision was fair. To my great regret the awakened Dick had brought the poorest ear of all, and was more abashed over this failure than he had ever been when he flunked in reading, writing, or arithmetic.

"For 17 years that school had not been visited by a parent or patron excepting on state occasions. But the next morning I had two callers. The first was Dick's father. He bolted in without knocking.

"Say," he exclaimed by way of introduction, "Dick says my ear's the poorest of any. I don't believe it."

"We laid out all the corn on my desk and I asked Dick to pick out his ear. He did so in a sheepish, shamefaced way.

"Well," commented the father, "it was kind of dark when I picked it out. I know I've got better corn in the crib than that."

"Then we had a corn talk in which Dick spoke more words than had passed his lips in the classroom before. He had found himself—and, what is more, I had found him and his father, too."

#### THE EDUCATION THAT COUNTS.

"From that moment I had the key to the situation. We improvised a very simple corn tester, and the results of the test were awaited with keener interest by every one in the school than had been any examination ever held in that schoolhouse. When the germinating period was finished, the boys were given a taste of a new kind of arithmetic—in fact they didn't know that it was arithmetic. First we made a test to compute the percentage of germination, and then figured the loss from poor germination as compared with the tests of the best seed corn in the State. Then we extended this line of figuring to the entire corn crop of the township. The boys were open-

mouthed at the results, and every one of them went home and demonstrated to his father how much he was losing on his corn crop every year by the planting of inferior seed. There were corn conferences in every household, and the final result was not only a great stride in the educational work in that school district, but a decided improvement in the corn crop owing to the better selection of seed corn and the testing of nearly all seed used in the district.

"I think the effect of our seed-corn experiment in the classroom was as great upon myself as it was upon Dick, although he was transformed from the dullest boy in the school into one of the most earnest and interested of pupils. As for myself, the disclosures of that experiment amounted to something like a revelation. That experience gave me a jolt that influenced my whole career. Instead of burying myself in books I studied the boys of my district and spent every available hour of my time in their homes or working with them in the fields and barns, finding out in what they were interested. From these researches I framed the work in the classroom and made a consistent attempt to hook up all the lessons with the actual life of the pupils.

"That experience contains the whole philosophy of the German system of carrying the education of the farm boy and the farm girl straight to the field and to the kitchen. In a pedagogical sense it is undoubtedly the soundest system in existence, the most vital and the most practical. Even in the ordinary country school of America a high percentage of the teaching is unrelated to the actual life—the home conditions—of the pupils. Of course there is a reason for all this.

"Probably no person had so great influence in fixing the characteristics of the common-school system as did Horace Mann. When he exerted that influence he saw that the country was short on the kind of education needed to equip men for the professions. Consequently he provided for that need. Instead of readjusting our educational machinery after that need was met, we have kept driving steadily forward in the same direction, until the whole logic of the situation has been changed and the matter of our academic education has been carried almost to absurdity.

"Now we are facing a revision in our educational system that is bound to be revolutionary. Once I heard the president of a fresh-water college declare that the mission of his institution was to turn out one great man—a great statesman, a great scientist, a great preacher or leader of men. That is the old conception of education, the ideal that is being pushed into the background by the pressure of the practical needs of a great nation of common people. The new education will not bother itself about keeping up the visible supply of greatness, but it will aim to teach every young man and young woman according to his or her needs."

The mistress of a little Iowa school, who had heard Prof. Holden talk for a kind of teaching that would "meet the boys and girls of the farm on their own ground and do something for those that can not go to college," determined to see for herself if there was anything in this theory of teaching farm boys "in the terms of their own every-day lives." As her district was in a dairy community she learned how to test milk and determine its percentage of butter fat. Then she asked each of the older boys in the school how many pounds of milk the best cow in the home dairy yielded each day.

"We've got one," proudly declared one pupil, "that gives 28 quarts—anyhow she did when she was fresh. I don't s'pose there's a better cow than old Brindle in this township."

"But don't you weigh the milk so that you know just what each cow is really giving?" innocently asked the teacher.

"Naw," was the disgusted response. "We keep too many cows to fool with any fussing like that."

"Jim's alus blowing about their Brindle," spoke up the son of a school trustee; "but we've got a new cow that don't need to take anything from any cow in this county. Pa says she's a full-blood Holstein."

"Well," laughed the teacher, "neither of you knows how much milk his cow gives in actual quantity—and if he did that wouldn't tell which is the better cow. This milk is bought by the creamery and made into butter. Suppose that Tom's cow gave 30 quarts a day, but that the milk was not rich enough to make a pound of butter, would the creamery make any money buying that kind of milk?"

"I dunno 'bout that," was the answer. "So long as they take it at the creamery an' don't kick, I guess it's all right."

"Brindle's milk is rich," retorted Jim. "It's almost as yellow as cream."

#### THE TESTING OF BRINDLE.

"In all the tests it's the quantity of butter fat produced that counts in scoring a dairy cow. What do you say to this plan: Each of you big boys is to select what he considers the best cow in his dairy, weigh her milk each time, and every Monday bring a sample of her milk here for testing? How many of you want to do this?"

Every hand was raised. The milk tests injected into that school a spirit of spontaneous interest that it had never known before. The work of the arithmetic classes was centered on the local milk records, and no example in percentage given in the textbook had ever inspired the eager attention that was given to the problem of figuring the percentages of butter fat in the various tests. This teacher discovered that she had a live school and that the big boys were no longer difficult to handle.

Some months later the father of Jim met the man whose words had inspired this experiment and made a confession.

"When my boy said, 'Teacher's going to have a milk test at school,' I laughed and said it was poppycock. But if the rest of the boys were going into it I didn't want him to show the white feather. I wasn't ashamed of my dairy. Now Jim's got a temper, an' his worst fault as a milker had always been that he'd whale any cow that didn't stand still for him. The cow that he was testing was a little nervous, an' one night I came into the barn just in time to see her give him a kick that would have knocked my disposition into a cocked hat, milk or no milk. I expected to see him go at her with the milking stool and lay it on where she'd feel it most. You could have pushed me over when he got up quietly, talked soft to her, and began milking again as if nothing had happened.

"Then it had always been his job to water the cows. There's a stream in the little pasture, and he was expected to drive the cows to it night and morning. He generally went through the motions, but it took a lot of watching to see that he didn't slight this part of the performance. He'd rush them through their drinks as if he was afraid they'd founder themselves. You know how boys are when they're just going through the motions with something they're not interested in? But after the teacher started that milk weighing and testing business the rush at the creek was all over. That cow—and all the others with her—were fairly teased to drink. They were tempted with salt and given an extra chance at the water.

"That wasn't all. He began to study into the feed question, and finally asked me to buy some stuff that he thought would make more milk and increase the butter fat. I bought it, just to humor him, but only enough for the cow that he was testing. When I saw what it did for her you better believe the rest of 'em had the same ration too. That teacher certainly got Jim going and he wound me up. I wouldn't take a lot of money for what it's done for us. He's interested in his school now and interested in the work at home. And the fathers of the other boys tell me about the same story. That teacher certainly started something. She'd have a hard time getting away from this district. Why, she's got every one of us interested, old and young, and we've got the liveliest school district in the whole country."

#### COUNTRY LIFE LEADERS.

Undoubtedly the closest American parallel to the German Wanderlehrer is the county demonstrator or agricultural expert. He pays a personal visit to all farms where his aid is asked. If the boy of the farm is present when the demonstrator calls he is free to absorb all the crumbs of instruction he can catch. But with several hundred farms to visit in the course of the cropping season, the county demonstrator can hit only the high spots, and at that his talk is aimed to meet the understanding of the father, not of the boy. All the direct instruction that the county expert can give the boys of his territory is simply covered by the old phrase, "a lick and a promise." He will, if he is greatly in earnest in his efforts, do all the work possible with the school teachers of his county and inspire them to individual work with their pupils. But at best he can only scratch the surface, so far as reaching and arousing the farm boy is concerned.

Here and there throughout the country, however, the common schools are showing that the principle of education involved in the Wanderlehrer system is taking root and producing what the farmer would call a volunteer crop. Cook County, Ill., which contains the second largest city in America, is a case in point. Hereafter this metropolitan county will have five country life leaders. Each must live in the district that he serves and must be on the job 12 months in the year.

When the country schools of the county are in session the work of the country life leader will be mainly in the schools. But during the vacation periods he is expected to follow the footsteps of the German Wanderlehrer and spend as much time as possible in the fields and farm homes of the pupils. As each leader will have the agricultural welfare of 25 schools to look after, it is a foregone conclusion that his individual contact with the pupils in their own home surroundings will be limited. To a large extent the work of the country life leader must be that of inspiring the teachers to a realization of the power to arouse and hold their pupils that is concealed in this new line of teaching. He is the missionary bishop of his diocese, whose largest task is to inspire, instruct, and direct the teacher-missionaries under him. The major part of the pastoral calls and the hand-to-hand work must be left to them. However it is no part of the plan

of County Superintendent Tobin or of Assistant Superintendent Calley to permit the country life leaders to do "too much work at the top and too little at the bottom." For its effect upon himself, quite as much as for its effect upon the pupils, each leader will be required to have a generous amount of contact with the pupils, their parents, and the home fields.

When Superintendent Tobin found that Miss Agnes Ryan, of the Morton Grove district, had revolutionized the spirit of her school by introducing a seed-corn test, he began to look about for other teachers who showed the same symptoms of initiative, the same sympathy with the everyday life of their pupils, and the same capacity to understand country conditions. Six teachers who seemed to possess these qualifications were selected and told to go to Prof. Holden for a talk on how to "get next to the boys and girls of the farm." These teachers returned from their conference equipped with a fresh enthusiasm, with a wider view of the possibilities of this new kind of teaching, with a firmer faith in its results, and with an outfit of the tools needed for the work.

The results accomplished by these teachers have been so notable as to make the country-life movement a part of Cook County's educational system, and to put upon the pay roll the five country-life leaders who are charged with the responsibility of pioneering the movement.

In one district alone the pupils have tested more than 2,000 ears of seed corn in school and perhaps an equal number in their homes. This is district 146, about 2 miles out from the suburban village of La Grange. Miss Mae Foran, the teacher of this school, says that 50 per cent of the corn planted in her district has been tested by the pupils. This work was begun April 8 and continued until the last week of May.

In the opinion of Miss Foran these afternoons were the most valuable of the entire school year, and have done more to connect the school with the realities of the everyday life of her pupils and their parents than have all their studies. While the fact that the corn crop in that district will be greatly increased—probably by 25 per cent—is interesting and significant, Miss Foran regards this as merely an incidental benefit.

#### SCIENTIFIC CORN TESTING.

The effect of the corn test and the whole country-life movement upon the spirit of the school is illustrated by an experience told by a farmer living just outside the Cook County line. In driving to market he was obliged to pass one of the schools in which this work was in progress. The schoolroom was buzzing like a beehive. The sound was so unlike the familiar droning that he stopped his horse and looked inside. The pupils were crowded about the teacher, and the whole scene resembled the distribution of ice cream at a Sunday-school picnic.

"I saw," says this farmer, "that there was something doing out of the ordinary, something that really interested every pupil in the school. It was the liveliest schoolroom I had ever seen and I wanted to find out the reason why. So I knocked and explained to the teacher the cause of my call. Well, I stayed until school was dismissed and forgot all about my errand at the store. I didn't blame the pupils for being interested, and when I returned home that night I told my boy all about it. He begged to be taken to the school, and I took him there the next afternoon. It almost broke his heart when the teacher told him that as he lived outside the county she could not let him into the corn game. That night, as he told me about it, his lip quivered a little and he said: 'Gee, Pa, I wish they'd lemme go to that school.'

"I never heard a boy talk that way about any country school before, and I never expected to hear it either. When you can get a boy to feel that way about going to a district school the thing at the bottom of his enthusiasm is worth while."

In some of the schools the "rag-baby" testing cloth is used, but as a rule the pupils prefer a germination box with sawdust. Where this method is used the boys of the school build the boxes and the girls mark out the diagrams on the cloth that covers the sawdust. These diagrams identify the kernels with the ear from which they came. All of the six teachers who have done this pioneer work have found the girls of their school as much interested in the country-life lessons of the actual corn and seed testing as the boys.

Perhaps our nearest approach to the German Wanderlehrerin in petticoats is the teacher of domestic science in the short-course extension work of the Iowa School of Agriculture. These are the signs of the times, pointing to radical changes, a larger efficiency and a broader service on the part of the rural school.

(Thereupon the committee proceeded to the consideration of executive business, after which it adjourned.)



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# UNIFORM STANDARDS FOR COTTON

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H. R. 14492

**A BILL TO ESTABLISH UNIFORM STANDARDS OF CLASSIFICATION  
FOR COTTON, AND FOR OTHER PURPOSES**

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**AUGUST 10, 11, AND 12, 1914**



## UNIFORM STANDARDS FOR COTTON.

COMMITTEE ON AGRICULTURE,  
HOUSE OF REPRESENTATIVES,  
*Monday, August 10, 1914.*

The committee met at 10.30 o'clock a. m., Hon. A. F. Lever (chairman) presiding.

The CHAIRMAN. We have met this morning, gentlemen, for the purpose of considering the bill (H. R. 14492) to authorize the Secretary of Agriculture to establish uniform standards of classification for cotton; to provide for the application, enforcement, and use of such standards in transactions in interstate and foreign commerce; to prevent deception therein, and for other purposes. The bill is commonly known as the cotton grades bill. We have a number of gentlemen from different sections of the South with us this morning, and also the experts from the Department of Agriculture who handle this special line of work. I think it would be better for all concerned if we heard from one or two of the experts of the Department of Agriculture first, so that a general idea of it may be better had; and to that end I will ask Mr. Brand, who is in charge of the Office of Markets of the Department of Agriculture, to discuss the bill in his own way.

### STATEMENT OF MR. CHARLES J. BRAND, IN CHARGE OF OFFICE OF MARKETS, DEPARTMENT OF AGRICULTURE.

Mr. BRAND. I did not expect to be called upon in such summary fashion, Mr. Chairman. We had been studying this matter for a long time before it was brought to a focus in the present crisis. It seems, after careful study, that the most effective way to help out the present situation in the South is to take steps now to reach about four things with reference to cotton: First, a system of warehousing, which includes, second, certification, with, third, necessarily standardization on the basis of certification, and fourth, identification of the cotton with warehouse certificates.

Mr. MCKELLAR. Please state those over.

Mr. BRAND. Warehousing, certification, standardization, and identification. Without all four of these it is doubtful, at least, whether cotton collateral can be made as impregnable as it ought to be as a basis of credit, especially in the present crisis, when there is going to be a demand for funds from every possible quarter. It is not only cotton that is involved, but it is wheat, apples, and other things. For instance, we export thousands upon thousands of barrels of apples, and their market is gone, too.

Now, it seems that this bill, which was the product of times of peace, I take it, Mr. Chairman, and not of war, has in it several

of the basic necessities of the present situation. Through it can be provided a system of marketing the cotton crop, especially the export and interstate part of that crop, and the export part of the yield I believe last year amounted to something like \$600,000,000. This bill affords the opportunity and the basis for bringing about those four desired propositions. The whole purpose of the bill is to bring back to the grower the value of the particular quality of cotton which he produces, whether it be good or bad. That is where the identification comes in. Unless we have that we can scarcely improve our cotton situation. The bill as it stands provides for a licensing system very similar to that Mr. Moss has embodied in his grain-grades act. We believe that this is practicable, and we believe that if the whole matter is attacked with vigor at the present time a sufficient beginning can be made to be of assistance within the next 30 days. Indeed, it seems to me, after consultation with cotton men, that whatever is done must be done at once if it is going to be effective. A very prominent grower of cotton from South Carolina was in my office Saturday, and he informed me that their crop was early this year, and that the bulk of it will be picked and ready for market in September—that is, anywhere from two to four weeks earlier than has been the case in previous years. Telegrams from my men in Texas say that the marketing of the crop has begun in south Texas, and, whereas when the exchanges closed the prices were around and better than 12 cents, they are offering only 9½ cents.

Mr. McKELLAR. Are any cotton exchanges open now?

Mr. BRAND. None. Now, all of those factors can be woven into this bill, as I read it.

Mr. MAGUIRE. Are any of the factories buying cotton at this time?

Mr. BRAND. Yes, sir; they are buying to a certain extent, but very little. As a matter of fact, there are very few such places in which any one can sell.

Mr. MAGUIRE. What part of the product is handled by the exchanges and what part is taken in direct buying for the factories?

Mr. BRAND. At the present stage of the handling of the crop, it has not reached the exchanges at all. It is only used on the exchanges in the settlement of future contracts.

Mr. MAGUIRE. What has been the proportion in ordinary years?

Mr. BRAND. We can not tell that at all.

Mr. MAGUIRE. Don't you have some knowledge of that?

Mr. BRAND. There are no statistics which show the volume or transactions on the New York Exchange. The New Orleans Exchange has better figures, though I can not give those offhand.

Mr. HAUGEN. In what respect does this bill differ from the Moss bill?

Mr. BRAND. In all essential features it is the same.

Mr. HAUGEN. What are the changes? I have not had time to read it.

Mr. BRAND. It is modified to fit the cotton trade, but in its essential features it is a supervision bill.

Now, just briefly, the bill confers upon the Secretary of Agriculture authority to investigate the important features of handling and marketing the cotton crop, and it authorizes him to establish standards for all qualities that are capable of standardization in

practical form. At the present time the only standards that exist are those for grade, based almost wholly upon trash and color. It will be possible, we believe, to standardize a number of other qualities, and this bill extends that authority. The first section gives authority similar to that which this committee incorporated in the futures act—identical with it, in fact, but modified to existing grades—

The CHAIRMAN. Don't you think it would be a good idea to substitute for sections 2 and 3, and probably section 4, the identical language of the standardizing section, or section 11, of the cotton-futures bill, so that there might be no confusion as to standards?

Mr. BRAND. Yes, sir; I think that would be better, so far as the standardization section is concerned. That would be section 9, however, as I see it, that would replace section 3 of this bill.

The CHAIRMAN. Instead of section 11 it is section 9?

Mr. BRAND. Yes, sir. The fourth section provides when the actions to be taken under the bill shall go into effect. Section 2 should be made to conform, I think, to a degree, at least, to the futures bill. The following sections are very similar to the grain-grades bill that this committee has reported, and provides for the compulsory use of one set of standards, and that the national standards. It does away with the multiplicity of standards which has existed in the past. Section 6 bears on the same matter of details with reference to the selling of cotton, and all the details relating to that are taken care of by that section. That takes care of a very desirable class of the trade, and one which it is not desired, as I understand the bill, to interfere with in any way so long as it is conducted in accordance with the legal principles of the bill.

Mr. MOSS. Is any certificate to be issued for cotton sold in the way covered by the proviso in lines 14, 15, 16, 17, 18, and 19 of section 6?

Mr. BRAND. I should say not, as the matter we have in mind now extends, but it might be desirable to incorporate such a provision—

Mr. MOSS. I think it could not be, but I wanted to know the theory on which this is drawn.

Mr. BRAND. The seventh section is the supervisory section, which gives the Secretary of Agriculture authority to cause inspections and examinations to be made.

Mr. McLAUGHLIN. Where will these examinations and inspections be made?

Mr. BRAND. Wherever a dispute is raised.

Mr. McLAUGHLIN. Cotton is sold, delivered, and received at thousands of different places. Is it your idea that a Government inspector shall be present at or where he may be called on to go to any or all of those places to make the inspections and examinations?

Mr. BRAND. The exact practical working of that has not been worked out, but it will probably be necessary and desirable to have standardization laboratories at suitable compress and concentration points, from which, in cases of necessity, the inspectors could be sent to outside points. But it would be physically impossible, or at least impracticable on the ground of expense, to have them at all these places.

Mr. McLAUGHLIN. It would not be impossible, but it might be impracticable to do it. This section, however, would seem to provide for that and to require it.

Mr. BRAND. Provision is made in the next section for licensed graders.

Mr. McLAUGHLIN. Is there any limitation upon the number of them?

Mr. BRAND. That should not be limited.

Mr. McLAUGHLIN. Under the language of the section there might be one for every market, and, as you know, there are innumerable markets.

Mr. BRAND. We would expect practically every capable cotton grader now at work to apply for and receive a license to grade cotton, and he would be licensed to grade cotton until such time as he did something that would make it impossible for us to continue him as a licensed grader.

Mr. McLAUGHLIN. There is a large number of them now employed by and under the direction of the United States Government?

Mr. BRAND. There is only a small number under the direction of the United States, and they are engaged in investigation work and laboratory work.

Mr. McLAUGHLIN. How many are there?

Mr. BRAND. I think there are probably as many as 12.

Mr. HAUGEN. That are employed by the Government?

Mr. BRAND. Yes, sir.

Mr. HAUGEN. What do they do?

Mr. BRAND. They are studying the standardization of cotton in a practical way and are carrying on investigatory work to determine the facts and values of standards.

Mr. HAUGEN. Do they go about the country?

Mr. BRAND. No, sir; they do not go about the country classifying cotton.

Mr. HAUGEN. They work in the office—

Mr. BRAND (interposing). In the office and in the field. They check up on classifications to this extent, that they are engaged in the primary-market survey work, and secure samples of cotton taken by cotton buyers, and we secured about 35,000 of them during the past season. We determined the values of the samples with our own men and compared them with the results secured by the commercial graders who handled the cotton samples previously, but in no case are these men engaged in the commercial grading of cotton.

Mr. Moss. While section 7 of this bill, in a general way, is similar to the corresponding section of the grain-grading bill, yet it differs very radically from it in this particular, that the provision in the grain-grading bill is limited to the grain that is sold or offered for sale, shipped or offered for shipment, in interstate and foreign commerce. Section 7 of this bill contains no such limitation. Is it the idea that cotton handled in intrastate markets or local markets shall be inspected?

Mr. BRAND. Only in so far as it may be necessary in connection with foreign commerce and interstate commerce.

Mr. Moss. Under what theory would it be possible to authorize the Secretary of Agriculture to cause an inspection or examination to be

made of **any** cotton which had been certified as sold in local markets and which does **not** enter into interstate or foreign commerce?

Mr. BRAND. I know of **no** authority for doing that specific act.

Mr. MOSS. Section 7 would **authorize** that, would it not?

Mr. BRAND. I think section 7 would be limited by the present authority which may be conferred in such cases.

The CHAIRMAN. It might be well to modify that section so as to make it clear. I think the point made by Mr. Moss is well taken.

Mr. MOSS. A radical difference between this section and the corresponding section in the grain bill consists in the fact that the section in the grain bill is limited specifically to grain entered or offered to be entered in interstate or foreign commerce.

Mr. BRAND. And undoubtedly the same limitation must prevail with reference to cotton grading. The only authority that would reside in the Federal Government with respect to that matter would be for the supervision of these grades, just as it issues them, the same as it exercises supervision of the currency and things of that sort. The eighth section confers authority for the issuance of licenses to graders. Now, it seems to me that in the present emergency it might be desirable to extend that section to include rules and regulations for licensing of bonded cotton warehouses. Certainly it would be necessary to take some such action if it is desired to or decided to make any advances of money upon cotton. If it is decided to do that it will be necessary to provide for warehousing and for the proper legal safeguarding of the collateral issued on the basis of warehouse receipts. So I suggest that as one of the emergency considerations it might be desirable to modify section 8 so as to include also the licensing of bonded warehouses. Furthermore, in order that suitable identification of bales may be had so that the quality of the cotton may be traced back to the person responsible for it, and in order that claims may be lodged at the door of the persons against whom the claims are properly to be made, it might be desirable to provide for the general licensing of ginneries in order that they might be required to mark with suitable identification marks the bales issuing from their gins.

Mr. HAUGEN. But you would have no jurisdiction of that, would you?

Mr. BRAND. It would be purely permissive, necessarily, but this is the emergency feature of the matter, and a regulation like that would probably commend itself to all persons interested in the industry, and they would very likely comply with any reasonable regulation made in that connection.

Mr. GOODWIN. What effect do you think these new elements which are to enter into the grading or classification of cotton, such as the ginning, wrapping, baling, sampling, handling, compressing, moisture content, certification, warehousing, transportation, etc., will have upon the local buyer who buys direct from the producer or grower of the cotton? Will his mind be at a loss to know what would be the proper price to be paid for this cotton, and would not a classification like that, with all these new elements entering into it, have a tendency to depress the market? In other words, will the local buyer know exactly how to class the cotton himself or what price to pay the producer for the cotton?

Mr. BRAND. This will not interfere with the present grades, and if such local grader is not going to be required to have a license, he will continue business the same as ever.

Mr. GOODWIN. Unless it is known that the cotton is intended for interstate or foreign shipment, will the grader be invoked? Section 8 says, "That the Secretary of Agriculture may issue licenses to grade or classify cotton for interstate or foreign commerce," etc. Now, will the grader be invoked or called upon to pass upon cotton bought from the local grower by the local buyer?

Mr. BRAND. As a practical matter, such a high proportion of the cotton crop enters into interstate and foreign commerce that practically all cotton grading will be in conformity with the requirements that are to be laid down.

Mr. GOODWIN. In your opinion, would not all the technicalities involved in this provision for the certifying and passing upon of grades set out in section 2 of this bill have a tendency to make the local buyer who purchases from the local cotton grower pay a less price than the cotton is really worth?

Mr. BRAND. No, sir. The answer to that would be this, that the section confers broad authority upon the Secretary of Agriculture to investigate those points, and they will come to the attention of the local man only when the standards relating to those particular things are promulgated.

The CHAIRMAN. As a matter of fact, until the Secretary of Agriculture, acting under the authority conferred in section 2, has investigated all those various things enumerated there—ginning, wrapping, baling, sampling, weighing, handling, classing, moisture content, etc.—you would use the present standards that we have?

Mr. BRAND. Yes, sir.

The CHAIRMAN. And those standards we have to-day extend to nothing beyond dirt and trash?

Mr. BRAND. Yes, sir; in grades.

Mr. MOSS. Don't you think the point you suggested a moment ago would be covered by section 5 rather than by section 7? I think that under section 5 as written here they would have considerable difficulty in marketing cotton, and we found it necessary to liberalize that provision with regard to grain.

Mr. BRAND. I think that section 7, if modified, will bring that about.

Mr. GOODWIN. Very few of these elements mentioned in section 2 now enter into the classification of cotton unless the cotton is stained—

Mr. BRAND (interposing). The only thing that has been standardized, as a matter of fact, is the grade that relates to color, and that relates almost wholly to dirt and trash. Those are the only standards now in vogue.

Mr. GOODWIN. Is there none for stains?

Mr. BRAND. There is no standard for stains, although it enters into the value of it even more than grade does. As a matter of fact, the most important characteristic of cotton, so far as its value is concerned, has not been standardized, and that is length.

The CHAIRMAN. What the gentleman from Arkansas is driving at is this: Whether or not the machinery of this bill will act as a clog upon commerce rather than as a help or aid to commerce.



Mr. GOODWIN. Whether it would stimulate commerce so much as it would depress the cotton trade and price.

Mr. BRAND. It would have absolutely the contrary effect on the price, because it will bring back to the primary purchaser, if the bill accomplishes its purpose, the true value of the grade of the cotton purchased.

Mr. REILLY. Is not the sole purpose of the bill to insure that the cotton grower shall receive the price for the grade he produces?

Mr. BRAND. Yes, sir.

Mr. REILLY. As I understand it, it is to help the grower. Heretofore the buyers have been getting from him cotton at whatever the price may be for the grade they determine, because the producer did not know what the true grade was. Is not the object of the bill to give the producer the price of the grade that he produces?

Mr. BRAND. The object of the bill is to improve the system from start to finish.

Mr. REILLY. In many instances, no doubt, the producer has been injured in the sale of his cotton because he did not know the grade of the cotton, and that might occur through the ignorance of both the local buyer and the grower.

Mr. BRAND. That has frequently occurred.

Mr. GOODWIN. I want Dr. Brand's idea about this matter—

Mr. BRAND. I do not feel sure that I have clarified your point.

Mr. HAUGEN. This will offer the farmer of your State as well as the local buyer an opportunity to ship cotton to any of the markets interested in interstate and foreign commerce and have the true grade of the cotton determined, but the department will have no authority to go to your market and insist that cotton that does not enter into interstate or foreign commerce shall be subject to these regulations, but when it is sold it will be sold subject to the grading made at the time it was sold.

Mr. BRAND. This is my answer to the question in part: The bill was submitted to a cotton buyer and he was asked if it was actually consummated what would be the effect. He said, "It would run us fellows out of business, because you would not have any use for us."

Mr. GOODWIN. A great deal of cotton is sold to local merchants, not big cotton men who are experts in the grading and standardization of cotton, and they might have some doubt as to how that cotton might be graded under this provision in section 2. Therefore, in making the price to the grower, the local buyer might take into consideration the fact that the price at which it was finally to be sold might be less than the price at which he bought, and in making his price to the grower he might not give the grower as much as he should receive for it.

Mr. BRAND. It would be of great assistance to the local grower, because he could call upon any licensed grader to determine the grade of his cotton, and it would also be of assistance to the local buyer, because it would relieve him of a great deal of responsibility as to the quality.

Mr. MAGUIRE. Speaking of licensed graders, is it not true that it would take months, and perhaps more than that, to get a sufficient number of licensed graders in this work?

Mr. BRAND. No, sir; I do not think so.

Mr. MAGUIRE. It might not meet the present situation.

Mr. BRAND. We would necessarily license the present grading force. It is not the purpose of the bill to clog the wheels of commerce and to prevent the handling of the crop as it is now handled, but the purpose is to make the work more efficient. The idea would be to utilize the present force of graders. For instance, Mr. Copeland, of South Carolina, said to me, "I have five men in my office now who are thoroughly competent to grade cotton. What would I do with them"? I said, "The thing to do would be to issue licenses to them and let them grade cotton until by some act of theirs they made it impossible for the department to continue them as licensed graders."

Mr. MAGUIRE. Is it true that these inspectors will have to deal with the sampling proposition that you have in this bill? If so, you are going to add a number of elements that these inspectors would have to take into consideration.

Mr. BRAND. No, sir; that is not the case. The section you are referring to is an authorizing section, and none of those qualities mentioned there would be taken into consideration until the standards have been promulgated by the department.

Mr. MAGUIRE. Are these standards sufficiently adjusted now so that you could put them into the hands of these inspectors?

Mr. BRAND. The only standards that we have at all are the standards of grade, and those are only used by a restricted number of markets. We have a great diversity of standards all over the United States.

Mr. HAUGEN. I understood that practically all of the markets had adopted Government standards.

Mr. BRAND. A great many have adopted Government standards.

Mr. HAUGEN. And a large number have not?

Mr. BRAND. Yes, sir.

Mr. HAUGEN. When you speak of a large number, do you have reference to any of the larger markets?

Mr. BRAND. Galveston is the largest market not working on those standards. New Orleans has worked on those standards consistently practically from the beginning.

Mr. HAUGEN. Has Galveston a grade of its own?

Mr. BRAND. It is supposed to be working on the Liverpool basis. Atlanta has a set of grades. Savannah has a set of grades, and so on.

Mr. REILLY. Would it be possible, under the suggestion made by the gentleman from Arkansas, that a farmer would have the right to get a higher price for his cotton in case it was graded higher in interstate trade than when sold to the local buyer?

Mr. BRAND. That would depend on the workings of the system. If the bale could be properly identified, it should be required.

Mr. REILLY. The local buyer could be required to make a statement as to how the cotton was graded?

Mr. BRAND. It could be required. That would not be a difficult matter.

Mr. REILLY. I do not believe you could furnish graders to local buyers.

Mr. BRAND. The graders will have to be classified. At the primary points the graders would not require such high efficiency—that is, the graders at such places as New Orleans and New York would require a degree of expertness that would not be required in the

graders at primary points. But when we found at a primary point strict middling cotton bringing less than low middling cotton it would be easy to see. It is easy to see that the correction of a market which came only within 10 per cent of correctness in grading would lead to improvement in the industry.

Mr. GOODWIN. There are so many elements of a technical nature entering into the grades that it might cause the local merchant to hesitate, I think. Most of it is sold to the local merchant. They furnish the farmers supplies and lend them money, and even if they do not, the growers generally go to them to dispose of their cotton. Then, the local merchant might say: "I do not know about the grading of this cotton finally, because there are so many elements entering into it." That might have a depressing effect on the price. Mind you, I am not antagonizing the bill, but I am asking you for information, although I would antagonize it if I thought it would have the effect I have suggested.

The CHAIRMAN. As a matter of fact, that very same condition exists now, locally, and the local grader will probably always underbid what he thinks is the price for the proper grade in order to protect himself.

Mr. BRAND. He must play safe. But this will not be based upon that. That is merely an authorization to investigate.

Mr. GOODWIN. But all those things are elements that enter into the price.

Mr. BRAND. No, sir. Your bale of cotton is graded as to its length of staple and its condition as to whether it is gin-cut, its condition as to color and other factors. Those are things that enter into the price, but these are merely mechanical operations largely that are involved in the preparation of the cotton for market.

Mr. GOODWIN. I think these are elements that would enter into the standardization of cotton, because cotton is priced according to the standard you fix.

Mr. BRAND. These technical points will be investigated by the department, but they will not necessarily confuse either the local buyer or merchant—

The CHAIRMAN (interposing). Is it not a fact that section 2, so far as the authority given there to investigate the ginning, wrapping, baling, stamping, weighing, handling, classing, grading, compressing, care, moisture content, certification, warehousing, storage, transportation, marketing, and utilization of cotton and its products is concerned is nothing more or less than the reenactment of the present law into a permanent statute—that is, a law that is now being carried from year to year?

Mr. BRAND. Yes, sir.

The CHAIRMAN. We want some solid foundation to stand on.

Mr. BRAND. It puts all of those things into one repository.

Mr. McLAUGHLIN. What kind of work would you expect the Secretary of Agriculture to do under section 2, which authorizes the Secretary to investigate all these different things? It looks to me like it would call for an investigation of the cotton and everything done with it from the time it leaves the field until the time it reaches the consumer in the cloth, because it names nearly everything that I can think of that is done with cotton, and ends with the words, "and

utilization of cotton and its products." What would you expect the officials of the Department of Agriculture to do with respect to these different things?

Mr. BRAND. To investigate any and all of them when they are presented for investigation, with a view to bringing about improvements in the present existing system. If we are using types of gins which should not be used because there are better types, determine the best, and make them known. If there are better types of compresses, if present types can be improved, and we know they can, investigate and point out the truth and bring it to the attention of the persons interested, and similarly with other things.

Mr. MAGUIRE. That is a wholly different field, apart from the purpose of the bill?

Mr. BRAND. Practically all of those factors have a bearing on the standardable qualities of cotton; I think all of them have upon the proper enforcement of the standards.

Mr. McLAUGHLIN. After all the work in the mills has been done there is the certification, warehousing, storage, and transportation to market. We made an appropriation of \$250,000 to assist in working out a feasible plan for marketing. Is this work to take the place of that?

Mr. BRAND. In part. So far as it relates to cotton, this draws together all those activities.

Mr. McLAUGHLIN. Would it be necessary to repeal that act appropriating \$250,000, or thereafter make no appropriation for that purpose?

Mr. BRAND. I would say that that would be wholly how Congress, or this committee, saw fit to handle the appropriation with reference to that work.

Mr. McLAUGHLIN. It would be necessary to continue that appropriation?

Mr. BRAND. It would be very much better to have all of that appropriation, either in one lump or sufficiently delimited so there would be no question about it, and it would not make any difference where it was made.

Mr. McLAUGHLIN. What do you think should be done in carrying out this direction, that the Secretary of Agriculture is authorized to investigate warehousing, storage, transportation, etc.?

Mr. BRAND. With reference to storage, for instance, there are sections of the United States where very satisfactory storage systems are now in operation. The State of Georgia has a very ample supply of storage warehouses, the greatest supply of any State in the United States, possibly, for cotton. Its methods are known in the State of Georgia, but are not utilized or known in other States. Let us investigate what is being accomplished at points where they have good systems, good practices with reference to warehouses, and let us induce by suggestions and demonstrations the utilization of the same good methods in sections where they are not now doing that.

Mr. McLAUGHLIN. Are the storage houses in one State following the methods in other States on their own account?

Mr. BRAND. Not to any account.

Mr. McLAUGHLIN. Is there any State legislation looking to this investigation for the benefit of the people within the State?

Mr. BRAND. There is such legislation on the statute books of practically every State in the South with reference to warehouses. It is very contradictory and varies greatly for the different States. It would seem that one of the most important things is to secure uniformity in that matter and such investigations would have a distinct bearing on that point by calling attention to the desirable features. Louisiana has, perhaps, the most comprehensive warehouse law of any of the Southern States.

Mr. McLAUGHLIN. What about the "utilization of cotton and its products"?

Mr. BRAND. That is a general conferring of authority to determine by spinning tests the values which relate to length, grade, etc. That does not relate to spun cotton, but to raw cotton and cotton seed.

Mr. McLAUGHLIN. It says "cotton and its products," and that would mean cotton cloth in all its forms.

Mr. BRAND. Not in the sense we have it in mind.

Mr. McLAUGHLIN. What sense have you in mind?

Mr. BRAND. Lint and seed and nothing beyond that.

Mr. REILLY. Cotton products?

Mr. BRAND. Yes, sir. It is taken from the producing point of view and not from the manufacturing point of view.

Mr. HAUGEN. You will actually spin cotton or get samples of cotton spun in order to ascertain and determine the exact value of the cotton?

Mr. BRAND. That is a necessary portion of the investigation to carry on the spinning tests.

Mr. McLAUGHLIN. One of these sections provides that the Secretary of Agriculture shall prepare practical forms of all of the grades or classes. Is that the ordinary samples of all the standards of cotton?

Mr. BRAND. That is the practical form. The general descriptive form is used to cover all of the methods of displaying a standard.

Mr. McLAUGHLIN. And the Secretary of Agriculture is authorized to furnish such forms to persons who may wish them at a cost to be determined by the Secretary of Agriculture. Heretofore when legislation has been enacted respecting that a price has been fixed?

Mr. BRAND. Not in the legislation.

Mr. McLAUGHLIN. Do we not say something about 25 or 35 cents?

Mr. BRAND. You must have gotten that out of the department's announcement.

Mr. McLAUGHLIN. There is a provision in some of the laws that the price to be paid shall not be less than the actual cost?

Mr. BRAND. I think there is some wording to that effect.

Mr. McLAUGHLIN. Is it necessary to have that provision in this bill?

Mr. BRAND. I think the idea was to leave that to the Secretary with full knowledge that he would not assess an unfairly high price, nor would he make the price so low as to constitute a loss to the Government. There would not be any objection to that.

Mr. McLAUGHLIN. There would be an immense demand for those samples and the supplying of the demand would entail a very large expense. Would it not be advisable to limit it in some way so as to assist the Secretary in determining a fair price?

Mr. BRAND. I see no special objection to that. The only point I would mention is this, that it is almost impossible to accurately determine the cost, and to use statute language would indicate that the cost could accurately be determined. In conducting investigational work in connection with other work you can never separate all of the items of cost chargeable against any particular set of standards, and the Secretary would take those costs into account in fixing the price. However, I see no particular objection to the inclusion of any such language.

Mr. McLAUGHLIN. Sometimes in matters of this kind, where goods are to be inspected for the benefit of those who are buying and selling, a fee is charged to cover the cost of the inspection service, and so on. What do you think of the advisability of having a provision of that kind in this bill?

Mr. BRAND. I think we have such a provision in the bill.

Mr. McLAUGHLIN. I beg your pardon. I have not had an opportunity to thoroughly read the bill.

Mr. HAUGEN. If an appeal is taken?

Mr. BRAND. Yes, sir; section 11 provides:

That the Secretary of Agriculture may charge and cause to be collected such fees as he may deem proper for licenses and renewals thereof—

That is the license fee, however, that is not the one.

Mr. McLAUGHLIN. It says further:

And shall fix and cause to be collected from the parties in controversy the costs or charges for all determinations.

Mr. BRAND. All fees were included in one clause.

Mr. McLAUGHLIN. Is there any provision for a charge against the buyer or seller for the service of the inspectors in assisting them to arrive at the proper value of the produce changing hands?

Mr. BRAND. No, sir.

Mr. McLAUGHLIN. Have you considered that?

Mr. BRAND. We have considered it, yes; but not in the light of providing any statutory enactment to cover it. We believe it best to leave that to private agreement between the parties to the transaction. It would not be wise to say that the fee for grading a bale of cotton should be 10 cents. In Waco, where they have from 30,000 to 40,000 bales of cotton, a man might make a fine living at 10 cents, while at Greenville he might not be able to make a living at the same rate. In a market that had a small number of bales it might be necessary to charge a higher rate.

Mr. McLAUGHLIN. It might be proper for the Government to require a fee to be paid to cover the Government expense, and would it not be well to give the Secretary of Agriculture authority to fix the rate which should be charged against the buyer or seller?

Mr. BRAND. I think it would be much better in view of the difficulty of the administration of any provision of that kind to give him authority to make rules and regulations and let him vary them according to the needs of the different sections.

Mr. McLAUGHLIN. Do you think it would be proper to require a fee to be paid to the Government to cover the expense?

Mr. BRAND. Only in cases where there is a dispute and an investigation or examination.

Mr. McLAUGHLIN. But there are investigations and certifications in innumerable cases where there is no dispute?

Mr. BRAND. I do not think the Government should be a party to those in any respect until they become a dispute.

Mr. REILLY. The Government is not put to any expense until there is an appeal from the grading inspector?

Mr. BRAND. No, sir.

Mr. MAGUIRE. Those inspectors are not salaried by the Government?

Mr. BRAND. No, sir; they are licensed to grade cotton.

Mr. MAGUIRE. And they are supposed to receive a salary from some concern?

Mr. BRAND. They may be salaried employees of some big cotton firm. A large firm handling from 100,000 to 300,000 bales of cotton will have from 4 to 12 graders. These men will receive their salaries as employees and they will be licensed graders. They will receive no salary from the Government.

The CHAIRMAN. Like agents of a chamber of commerce?

Mr. BRAND. Yes, sir.

The CHAIRMAN. The only relation that the Federal Government has to these graders is if the cotton which they grade goes into interstate or foreign commerce?

Mr. BRAND. Yes, sir.

The CHAIRMAN. And the Government is at no expense whatever except when a dispute arises, and that dispute is referred to the Secretary of Agriculture for examination?

Mr. BRAND. Yes, sir.

Mr. HAUGEN. Are fees generally fixed by the State and the exchanges?

Mr. BRAND. There is no State grading system anywhere that is comparable with the grain system.

Mr. HAUGEN. The exchanges?

Mr. BRAND. Yes, sir.

Mr. HAUGEN. Are they paid by fees?

Mr. BRAND. It varies. The New York Exchange has a board of cotton classers and they receive a salary. I believe each ordinary classer receives \$3,000, and the chief of the committee receives \$3,500.

Mr. HAUGEN. Paid by the exchange?

Mr. BRAND. They are salaried employees of the exchange.

Mr. HAUGEN. And they in turn charge a fee?

Mr. BRAND. No.

Mr. HAUGEN. No fee?

Mr. BRAND. Absolutely no fee. Their fees were done away with in order to remove from them any interest whatever in the cotton. They receive their salary, and it is the same salary, no matter whose cotton it is.

Mr. HAUGEN. The testimony before the committee was that they charged a 15-cent fee.

Mr. BRAND. The exchange charges that; the classers have nothing to do with it.

Mr. HAUGEN. And that reimburses the exchange?

Mr. BRAND. There is a charge for grading cotton of so much per bale, but it is not paid to the classers.

Mr. MAGUIRE. Those inspectors are now generally employees of the exchanges, the buyers of cotton. Do you feel that those men would be fair to the producers?

Mr. BRAND. There would always be an appeal from any decision, which is the regulatory feature of the act. The other party to the transaction can appeal, and if the first party is wrong he will be reversed. They will try to approximate the proper grade very much more than in the past for fear of losing their license.

Mr. HAUGEN. The department is opposed to the Federal inspection of cotton, as it is of grain?

Mr. BRAND. I can not speak wholly for the department; I can speak, I think, qualifiedly. We believe that the first step is to try supervision.

Mr. HAUGEN. You favor supervision?

Mr. BRAND. If supervision is sufficient, let us stop at supervision.

Mr. HAUGEN. At present you wish to try supervision?

Mr. BRAND. Yes, sir. That has not been tried. It is possible to do very many valuable—

Mr. HAUGEN (interposing). Personally, I believe in Federal inspection to overcome the difficulty referred to.

Mr. BRAND. Most of the valuable results can be secured by supervision.

Mr. HAUGEN. I think a lot of good may come out of this bill. It may not be as good as Federal inspection, but I think it is a good bill.

The CHAIRMAN. You may proceed, Mr. Brand.

Mr. BRAND. In our miscellaneous discussion we have covered practically all of the additional sections; in fact, we have covered all the additional sections. If there are any further questions I shall be glad to answer them.

Mr. REILLY. You suggested that the bill be modified to meet the present emergency?

Mr. BRAND. I think that would be a very desirable feature to incorporate and that it would assist in the present emergency.

Mr. REILLY. Would it not be rather a bad precedent after this flurry was over?

Mr. BRAND. No, sir.

Mr. REILLY. Would it not encourage the planters to pursue the same plan next year and ask 15 or 20 cents?

Mr. BRAND. I do not see how they could get 15 or 20 cents if the Federal Reserve Board announced the amount which they would advance—say, 6 cents or 7 cents.

Mr. REILLY. They could sell their cotton?

Mr. BRAND. Their cost of production exceeds that and there would be no encouragement.

Mr. REILLY. The grain men and other people would demand that the Government should furnish warehouses where the people producing crops could put them until they could get the price which they thought they should have?

Mr. BRAND. I think, so far as they can do that within any law or regulation that might be prescribed, they should be permitted to do it. The State of Oklahoma has a law enforcing them to sell on the 1st of January or to pay a tax.

Mr. REILLY. The question is whether the Government should give its sanction to that method?



Mr. BRAND. I do not think they could object to that, because the amount advanced in any case would be small. It would require a valorization at a high price in order to bring about the result you fear.

The CHAIRMAN. You are not favoring the establishment of Government warehouses?

Mr. BRAND. Not at all.

The CHAIRMAN. Your proposition only is to license them?

Mr. BRAND. To license and supervise the warehouses.

Mr. McKELLAR. To see that no fraud is committed and that the cotton shall be what it is represented to be when sold?

Mr. BRAND. The Government makes no guaranties.

Mr. REILLY. And that the Government should recognize such exchanges?

Mr. BRAND. Yes, sir.

Mr. REILLY. What sort of an investigation will be carried on to provide good warehousing in this emergency?

Mr. BRAND. I think we should right away, quick, get together plans of warehouses, and that we ought to furnish them without charge to any organization of farmers or any other individuals who wish to put up warehouses in this emergency. I think that would be a very desirable thing to do, to furnish them with plans of good types of warehouses and to give them every facility to build.

Mr. McLAUGHLIN. You think the Government should do that?

Mr. BRAND. Yes, sir. I think that is a type of education that the Government can well afford to carry on in this emergency, and that it would clear away a lot of loss of time which would be necessary if a man were going to employ an architect. There are many good warehouses which can be put up at a reasonable cost. I have a telegram from Oklahoma on that subject, which on account of the interest I will read:

Have ironclad warehouse, capacity 30,000 compressed bales of 20,000 non-compressed bales, building equipped with overhead-trolley system for stacking bales eight high; cement floor. Entire cost of warehouse about \$15,000. Size 100 by 250 feet, 24-foot walls. Now thinking of doubling capacity.

In other words, there is a capacity of from 20,000 to 30,000 bales, in accordance with whether it is compressed or noncompressed, secured at a cost of \$15,000, or less than \$1 a bale on the flat bale and 50 cents on the compressed bale. There is economical construction that supplies all of these requirements. We should have plans of such warehouses and put them in the hands of the people.

The CHAIRMAN. Have you such plans?

Mr. BRAND. We only have a few, because we have not had much opportunity to do this work.

The CHAIRMAN. What information have you as to the warehousing capacity of the South?

Mr. BRAND. We are getting that information together. It is rather a task, but I did get together the figures for North Carolina and Georgia and brought them with me. The ordinary warehouses of the State of North Carolina, according to our survey, have a capacity of 120,000 bales. The cotton-mill warehouses of that State have a capacity of approximately 350,000 bales. In addition to that,

the compresses of the State have a capacity for possibly 100,000 additional bales, a total of 670,000 bales for the State of North Carolina.

The CHAIRMAN. What is the production of North Carolina?

Mr. BRAND. That is as much as it produces, but it is to be remembered that North Carolina does not use its own production, it is like South Carolina in that respect.

The CHAIRMAN. What are the figures as to Georgia?

Mr. BRAND. The State of Georgia, the warehouses proper, have a capacity of approximately 400,000 bales. No; that is the cotton-mill warehouses. It is a much smaller cotton-mill State than either of the Carolinas. The ordinary commercial warehouses, including all Farmers' Union warehouses, have a capacity of something like 800,000 bales, as nearly as we can determine it. The total in the State of Georgia is roughly 1,250,000 bales. So far as we have been able to learn, no State has any greater capacity than that.

Mr. HAUGEN. What is desired now, authority or additional appropriations to enable the department to furnish the specifications, blue prints, and so on?

Mr. BRAND. If Congress would enact the legislation we would immediately indicate the type which should be erected.

Mr. HAUGEN. Have not you that authority now?

Mr. BRAND. Yes, sir.

Mr. HAUGEN. Have you the money?

Mr. BRAND. We have the money, but we are spending more money for other things.

Mr. HAUGEN. It would not take a great deal of money to furnish the blue prints and specifications?

Mr. BRAND. We put in a lot wherever we can.

Mr. MAGUIRE. As I understand, the protecting of the cotton is comparatively a simple proposition, and you have no complications as to the warehouse from the point of view of protecting the cotton against weather, and so on, as you would have with perishable products?

Mr. BRAND. It must conform with the underwriters' requirements so as to get a proper insurance rate.

Mr. MAGUIRE. There would not be any loss from the weather, and so on?

Mr. BRAND. A galvanized warehouse would answer the purpose.

Mr. MAGUIRE. That would be comparatively a simple proposition. On the other hand, a warehouse for the purpose of financing farmers or as a fiscal proposition would be entirely different?

Mr. BRAND. There would have to be a standard repository for the cotton under proper authority so that credit might be established.

Mr. HAUGEN. Would you take bond from the licensed warehouse?

Mr. BRAND. It would be necessary that they be bonded in order that the enforcement of any claims against them would be possible.

The CHAIRMAN. A committee from Augusta, Ga., yesterday violated the Sabbath, under the "emergency," and called on me and left with me this picture of the warehouses in Augusta, which have a capacity of 100,000 bales, and an additional capacity of 100,000 bales. Mr. Turner, from Memphis, Tenn., has shown me a picture of the warehouses in Memphis, which have a capacity of 250,000 bales.

Mr. TURNER. I had 240,000 bales under cover last year in compressed cotton, and not one twenty-eighth of the entire crop showed one drop of moisture.

The CHAIRMAN. What is the situation in South Carolina, Mr. Stackhouse?

Mr. STACKHOUSE. One hundred and seventy-five thousand bales for the warehouses proper, and for the cotton mills approximately 250,000 to 300,000 bales. The figures as to the warehouse capacity of Georgia are wrong, I think.

Mr. BRAND. Those figures were obtained from the mills this year.

Mr. STACKHOUSE. At Charleston we have capacity for about 100,000 bales, and the State of South Carolina could take care of something like 40 per cent of the South Carolina crop.

The CHAIRMAN. What percentage of the cotton crop of South Carolina is consumed by its own mills?

Mr. STACKHOUSE. South Carolina grows about 1,400,000 bales, and the mills consume about 700,000 bales.

Mr. McLAUGHLIN. All the transactions between the buyers and sellers in the State are local transactions, and controlled almost altogether by the State law. Now, you spoke of bonded warehouses where it is proposed that some security be given by one who places cotton there, or that a security be given to those who place cotton there. Now, why could not the State take care of that?

Mr. BRAND. I think the State might take care of it, but this is an emergency, and it would take a long time to secure legislation in 11 States to bring that about.

Mr. McLAUGHLIN. What emergency do you refer to?

Mr. BRAND. We face this emergency, that we have closed the exchanges and are unable to ship abroad.

Mr. McLAUGHLIN. Yes.

Mr. BRAND. The countries that are at war normally consume above 8,000,000 bales of our cotton.

Mr. McLAUGHLIN. Even at that, will it be necessary for the Government to interfere by legislation to provide for bonded warehouses, the regulating of them, etc.

Mr. BRAND. I think that unless something is done to straighten out the situation, the economic loss to this country will be enormous. I think it is possible to do something, and I think it is a case where quick action and suitable action are a sight more important in a way than the question of just whether the authority is ample, although I think that it would not be necessary to transgress upon anyone else's authority—

Mr. McLAUGHLIN. I want to ask another question in regard to the expense of carrying this out. There would be, of course, some expense connected with these inspections of the mills and of their processes, and of the methods of getting cotton ready for market, but, otherwise than that, there will be no expense on the Government except in case of appeal from one of the parties to a transaction to settle a dispute, and that expense is provided for. This bill provides that those engaged in the dispute shall reimburse the Government?

Mr. BRAND. Yes, sir.

Mr. McLAUGHLIN. In the final roundup, then, aside from this investigation work that is to be done, all of these activities are to be self-supporting?

Mr. BRAND. In their regulatory features, but not in their investigatory features.

Mr. McLAUGHLIN. Largely these investigatory features are along the lines now being pursued by the Government?

Mr. BRAND. Yes, sir; but not as extended as they necessarily will be under this broad authority, although you are right so far as the main features are concerned.

Mr. McLAUGHLIN. You say that this investigation will be made to a greater extent. Outline that, if you please.

Mr. BRAND. Well, take the suggestion I made with reference to warehouses. When this bill was brought up to us in regular course by Mr. Lever there was no consideration of licensed warehouses in there, because there was no emergency that would make any such action necessary, so that any activities with reference to licensing warehouses and the expenses incident thereto would be wholly aside from the provisions of this bill.

Mr. McLAUGHLIN. That would be only to deal with this emergency?

Mr. BRAND. Yes, sir; largely. There would be the expense of these graders that it would be necessary to license to visit the preliminary showing of the persons who are to be made licensed graders.

Mr. McLAUGHLIN. Does this bill provide that a fee may be charged for licensing a grader that may be made large enough to cover the expense?

Mr. BRAND. Yes, sir; that could be covered into the Treasury. My suggestion would be merely to appropriate that money to the Civil Service Commission, which already has the machinery for handling thousands of these applications, and that that commission be directed to handle them under such rules and regulations as the Secretary of Agriculture may prescribe.

Mr. McLAUGHLIN. What further expense would there be that is not to be covered back into the Treasury?

Mr. BRAND. All of the investigation work relating, for instance, to suitable methods of transportation, the suitable protection of cotton, and the scientific investigation required to determine what would be a suitable basis for the establishment of length standards, moisture standards, etc. We have carried on a little moisture work, but much remains to be done which has not been touched at all.

Mr. McLAUGHLIN. Those are along the very lines now followed by the Government?

Mr. BRAND. Yes, sir; but they will be made much more comprehensive, as the proper conduct of such an important act as this would require.

Mr. MAGUIRE. I see the bill provides an appropriation of \$350,000. Do you think that much will be necessary?

Mr. BRAND. I do not think it could be done for less than that; and there ought to be added at least \$20,000 for the Civil Service Commission if it is the purpose to have that commission to perform this duty.

Mr. MAGUIRE. And that would have to be continued, I suppose?

Mr. BRAND. I should think so. Possibly not all of it, but, I think, very nearly that sum would be necessary.

Mr. MAGUIRE. How much do you think is now appropriated to the Agricultural Department for this character of work?

Mr. BRAND. About \$130,000, possibly. I do not know exactly what the sum is that is at present appropriated for the types of activities included among those specified in this bill.

The CHAIRMAN. It is \$90,000, as I recollect it.

Mr. BRAND. It is \$91,000 in one item, and then, roughly estimating, there are \$40,000 in another item.

Mr. MAGUIRE. That does not include investigation work such as is carried on down there by the numerous field demonstrators?

Mr. BRAND. No, sir; it does not include that. That includes only those things that relate specifically to the subject matter of this bill.

The CHAIRMAN. Summarize briefly, if you will, what the provisions of this bill intend to accomplish, aside from those investigatory lines of work that are covered in section 2.

Mr. BRAND. It is intended to put the cotton industry, so far as it relates to dealings in raw cotton, on an intelligent and intelligible basis; to remove the extremely complex situation which prevails at present, whereby information in one section of the trade is practically held unknown to another section of the trade. As some one has put it with reference to another industry, some of the activities are going on in individual water-tight compartments, and some in others, and nobody knows what is going on in the other compartment, although all of it relates to one given subject. It is the purpose to iron out some of the wrinkles and to simplify the process of getting the cotton from the grower to the manufacturer. It is not aimed in any respect in an inimical way at any present handlers of cotton. There is no thought of knocking the buyer or anyone else. The whole idea is to eliminate waste wherever it can be eliminated, with a view to bringing to the producer as accurately as may be the value of the particular grade of cotton that he produces. In brief, that is the purpose of the bill, and that is what it would accomplish if properly carried out.

The CHAIRMAN. You would identify every bale of cotton from the time it leaves the primary market until the time it reaches its final destination?

Mr. BRAND. Yes, sir.

Mr. REILLY. That warehouse that was constructed in Oklahoma has satisfied the necessities, has it not?

Mr. BRAND. Yes, sir.

Mr. REILLY. Then, why could not the private enterprise of the people of the South produce the same results by the construction of other such warehouses?

Mr. BRAND. They put their money where it pays best, just as they do everywhere else. Those who build warehouses are connected with the cotton business in some way, and they make money out of warehouses in connection with other activities. There are very few warehouses that simply do a storage business and provide space where anyone can store their cotton independently of any other transaction. Practically every warehouseman, if not all of them, are cotton factors or are engaged in buying cotton.

Mr. REILLY. What advantage would the people in the Southern States have in the construction of warehouses under this proposal other than the advantage that man in Oklahoma had in constructing that warehouse?

Mr. BRAND. It would have this advantage in the present emergency, that it would form a suitable place for cotton in order that money might be borrowed on it. Other than that, it would have no economic advantages that do not exist or that any locality would not have from a warehouse like that in Oklahoma.

Mr. MAGUIRE. This provides nothing for warehouses. It only provides for an investigation.

Mr. BRAND. The provisions incorporated in that bill are wholly for investigations.

Mr. MAGUIRE. Then how would you meet the emergency?

Mr. BRAND. My suggestion was that it might be advisable to include additional language in the bill relating to warehouses.

Mr. MAGUIRE. Is not the present emergency a question of foreign shipping? Is not that the real emergency we are up against now? How will this bill meet that emergency?

Mr. BRAND. If it is properly carried out, with the suggestions that have been made, we believe that it will furnish the necessary machinery so that cotton can be made a suitable basis for credit.

Mr. MAGUIRE. I know, but it takes some time to get all of that machinery into force. It seems to me that it would take many months to do that. Even with the machinery in an advanced stage of preparation, it would take three or four months to get this into operation.

Mr. BRAND. There are in existence at the present time several classes of warehouses. There are cotton-mill warehouses, commercial warehouses, port warehouses, farmers' union warehouses, and then there is the additional possibility of the quick construction of additional warehouse facilities.

Mr. MAGUIRE. I did not particularly refer to warehouses, but I meant the whole bill itself.

Mr. BRAND. Let us register all these warehouses quickly; let us classify them as to the kind of protection they afford, both as to fire, water, and as to credit. Let us classify them and give them a standing, so that cotton may be put in them and money borrowed on it.

Mr. MAGUIRE. Are you considering the point that there is likely to be very much controversy before the bill gets through the two Houses of Congress?

Mr. BRAND. However much it may be controverted—

Mr. MAGUIRE (interposing). That would mean much delay, and you would not meet the present emergency.

Mr. BRAND. How else can we meet it?

Mr. MAGUIRE. The only way to meet an emergency is to meet the emergency at the time. If you have a delayed program, you can not meet it.

Mr. BRAND. I believe the proposal I have made can be carried out in sufficient detail in 40 days and possibly in 30 days. If we go at it vigorously and get this machinery started in the sections where the crop is beginning to move now and then move northward, we will have more time for doing the work in the sections where the slightly cooler climate delays its maturity.

Mr. McKELLAR. Your idea is predicated upon the Government lending money on cotton or buying the cotton outright, is it not?

Mr. BRAND. Yes, sir. I do not think the Government should directly make the loans, although I believe that under the section of

the Federal reserve act that I have cited it would be possible for members of the Federal Reserve Board to extend loans on cotton that complied with the conditions laid down in this bill.

Mr. McKELLAR. Your idea is to simply enact a law providing by regulation for registered warehouses, so as to expedite those kinds of loans on cotton. Is that your idea?

Mr. BRAND. Yes, sir.

Mr. McKELLAR. Is there not in this emergency the question of providing a market for cotton and transportation for cotton to those countries that are now at war? Does not that form a very important part, so far as the keeping up of the price is concerned? For instance, if we had ships to send cotton to England now, would not that aid the market very greatly, England taking such a large part of our export cotton, and her spindles being in position to run notwithstanding the war? If we had ships in which to send our cotton even to England alone, would not that have a great effect in keeping up the price?

Mr. BRAND. That would unquestionably help. But we would be going up against an unknown quantity over there—

Mr. McKELLAR (interposing). Is it not true that cotton in Liverpool is selling for a much greater price now than in this country?

Mr. BRAND. We do not know; the Liverpool exchange is closed.

Mr. McKELLAR. At the last report I think cotton was selling there at 13 cents and a little more. I believe it was 13½. It was about 13½, and the last price paid in Houston, Tex., was about 10 cents.

Mr. BRAND. Of course a part of that difference represents transportation, and the rest of it represents the depression due to present conditions.

Mr. McKELLAR. Is your Division of Markets taking any steps to see what the demand is in England, and to see whether they can utilize cotton there?

Mr. BRAND. We have a very small organization, and I believe that the State Department, which is one of our foremost departments, is unable to get cablegrams through. So we are not wasting much time on those big things.

The CHAIRMAN. Let me suggest to Judge McKellar that the State Department has been requested to get in touch with all our consuls with reference to that very matter, and to get information back to us as quickly as possible. The State Department is now doing that.

Mr. BRAND. For the sake of getting it into the record, I have prepared some statistical information, and I will give it to you as quickly as possible. There are in the world a total of approximately 143,000,000 spindles. Ninety-three million of those spindles are in the countries that are now at war, 32,000,000 of those spindles are in the United States, and 18,000,000 of them are in other peaceable countries, or countries at peace. Of the 93,000,000 spindles in the countries that are at war, England has 55,600,000, Germany has 11,200,000, Russia has 9,300,000, France has 7,400,000, Austria has 4,900,000, and Italy has 4,600,000. Of those in the countries at peace India has 6,000,000 spindles engaged almost exclusively in the manufacture of coarse goods; 2,000,000 spindles are in Japan, and they are working overtime now in trying to supply their own demand and the demand in China. In other words, there are only about 50,000,000 spindles in the countries that are at peace.

The CHAIRMAN. What is the number in England?

Mr. BRAND. Fifty-five million.

Mr. GARRETT. If England should gain control of the seas within the next few weeks, would that steady our market?

Mr. BRAND. It certainly would. That would be a distinct help. Now, with reference to the export of raw cotton. Last year we exported approximately 8,700,000 bales and we consumed at home something less than 5,500,000 bales. Of the 8,700,000 bales exported England took 3,300,000 bales, Germany took 1,250,000 bales, France took 800,000 bales, Austria took 625,000 bales, Italy took 550,000 bales, and Russia took 375,000 bales. Now, there is to be considered, in addition to the surplus of our own crop, the surplus of the Indian and other crops, amounting to between three and four million bales.

The CHAIRMAN. In that connection, have you any information as to the condition of the Indian and Egyptian cotton crops?

Mr. BRAND. We know in a general way. We had a dispatch from the Consular Bureau of the State Department saying that they had the best crop that they had ever had in India and that Bombay cotton sales were bigger than ever before and that cotton to the number of thousands of bales was piled in the open exposed to the weather.

The CHAIRMAN. Does India consume any of her cotton?

Mr. BRAND. I think practically none, or perhaps 100,000 bales of the better grades that goes to certain wealthy, luxury-loving people of that country, but I think that the best of that comes from Egypt.

The CHAIRMAN. Have you made any study of the capacity of our mills in this country—if they were run to their very limit?

Mr. BRAND. Very little, but to this effect, that putting them all in commission they could possibly use 7,000,000 bales.

The CHAIRMAN. You think that the limit of our consumption would be 7,000,000 bales?

Mr. BRAND. I think our spindles could handle that.

The CHAIRMAN. What is the number of spindles in Canada?

Mr. BRAND. I do not know what part of that 32,000,000 is in Canada, but possibly about 6,000,000. I would not want to hazard a statement as to that.

The CHAIRMAN. When you make the statement that 7,000,000 bales might be used in this country, you mean to include Canada also?

Mr. BRAND. Yes, sir.

Mr. GARRETT. We import a large part of the Egyptian cotton, do we not?

Mr. BRAND. Yes, sir.

Mr. GARRETT. The larger part of it?

Mr. BRAND. No, sir.

The CHAIRMAN. Mr. Stackhouse, have you any idea as to whether or not labor conditions are such in South Carolina, for instance, as would permit the cotton factories to run overtime?

Mr. STACKHOUSE. Mr. Parker, the largest cotton manufacturer in our State, was asked that very question, and he said that the manufacturers of cotton are up against the same condition now that the producer of cotton is up against, and that he does not think there



can be any great increase in the consumption of cotton during this time. That was his answer to that question.

Mr. CHAIRMAN. Mr. Parker also told me about the same thing.

Mr. BRAND. I do not want to criticize that statement, but it seems to me that if we do not increase the consumption of raw cotton we will be losing a great opportunity to develop our trade in South American countries.

The CHAIRMAN. I think it is a question of getting sufficient help to run the mills.

(Thereupon, at 12 o'clock noon, the committee took a recess until to-morrow, Tuesday, August 11, 1914, at 10.30 o'clock a. m.)

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COMMITTEE ON AGRICULTURE,  
HOUSE OF REPRESENTATIVES,  
*Washington, D. C., Tuesday, August 11, 1914.*

The committee met at 10.30 o'clock a. m.

Present: Representatives Lever (chairman), Rubey, Jacoway, Moss, Reilly, Haugen, and Helgesen.

The CHAIRMAN. The committee will come to order. I have appointed on the subcommittee to handle this cotton-grading bill, Mr. Lee of Georgia, Mr. Candler of Mississippi, Mr. Haugen, of Iowa, and Mr. McLaughlin, of Michigan, the ranking men on the committee.

Col. Watson, are you ready this morning to proceed?

Mr. WATSON. I would suggest, Mr. Chairman, that you hear Mr. Hunter, of Memphis, this morning.

The CHAIRMAN. We shall be very glad to hear from Mr. Hunter.

**STATEMENT OF MR. JAMES F. HUNTER, VICE PRESIDENT OF THE  
MERCANTILE NATIONAL BANK, MEMPHIS, TENN.**

Mr. HUNTER. Mr. Chairman and gentlemen of the committee, cotton is the great gold-producing crop of the United States. This crop sold under ordinary conditions, will not only supply home consumption but will bring into the United States in round numbers \$600,000,000 of foreign gold. It is the great factor we have in holding the balance of trade in our favor. Cotton is the most important crop of the South. In fact, it is the crop of the South.

The problem of marketing the crop is the most important financial question confronting the country to-day. It is a question of national importance, as it determines our balance of trade and importation of gold.

We merely state these facts with which you gentlemen are familiar in order to accentuate the importance of protecting the value of cotton under the present conditions, not alone for one section of the country but for the entire Nation.

We have been confronted most suddenly by a world-wide disaster involving the principal cotton importing countries in war. These countries under normal conditions import one-half of our cotton crop.

How long these conditions will continue or what will be the magnitude of these destroying agencies upon the marketing price of this cotton crop no one can foretell.

The acute question presented to the people of the South who are just now beginning to gather this crop is, How and by what means can prices be maintained? How can the situation be handled so that the producer of cotton can realize a fair market value for his crop?

In analyzing this situation one of the first, among many things to be considered, is the element of time. It is better that this condition should arise now, than later in the season when we would have been in the midst of marketing this crop, yet the time to market is close upon us. There is not a moment to lose in whatever measures of relief may be devised.

There is little time to put into operation any new or theoretical plan for material aid. Certification and valorization would mean maintaining a fixed price by the Government, which in the last analysis means the Government buying at a fixed price, and holding a percentage of the crop. We will not stop to discuss the practicability or feasibility of this plan.

Then, what is the most practical solution of the question under all the difficulties surrounding us?

How can we withhold the surplus portion of this crop from the market and from absolute sacrifice until conditions of transportation and consumption become normal?

I have been asked by the chairman of our cotton exchange committee to speak to you gentlemen from the banking view of this situation. Permit me to say the question is just as puzzling to the banker as any other business man, and what I may say I trust will be taken by you gentlemen as suggestive rather than the expression of a fixed opinion.

You are all familiar with the Federal reserve act, the act of 1908 authorizing the issue of an emergency currency and the amendments to this act, extending its operations and giving larger discretionary power to the Secretary of the Treasury.

As you know there are certain limitations fixed upon the banks in regard to rediscounts with the regional banks of commercial paper, the obtaining of emergency currency of only 30 per cent upon commercial paper, the limiting of any loan to 10 per cent of a bank's capital, which is a wise and safe provision under normal conditions, the exclusion of a national bank from participation in the distribution of the emergency currency that has a fully paid up capital, but does not have a 20 per cent surplus. These are some of the limitations that might be modified or suspended in emergency conditions.

Then, how does it strike you to permit, if feasible, the State banks that have not become members of the reserve association—under such conditions as now confront us—to participate in the use of the emergency fund under reasonable regulations? Enact such emergency amendments to the present law as will give to the banks of the country the very broadest latitude, in order to finance the holding of the surplus of the present crop.

The individual bank at last will be required to use sound business discretion in making these loans.

Cotton is the easiest and safest of all crops to handle as a collateral. It can be protected by warehousing, identification, and insurance, and does not deteriorate by reason of the time it is held.

It is a fact, well established in the commercial world, that with reasonable precaution, there is less chance to lose on loans made on cotton as a collateral than on any other class of commercial paper.

The southern farmer under existing conditions will need little persuasion to do his part in holding this crop. Say it has cost him \$40 per bale to make his cotton, and under normal conditions it is worth \$80 per bale. If he can get a sufficient amount to enable him to pay his debts contracted for making the crop, he will carry the prospective profit himself. The factor we feel sure will do what he can to assist him as far as possible within the limitations of good business.

It therefore seems to us, if you gentlemen will permit the suggestion, that our relief must come through the use of this emergency currency and crop-moving fund supplied through the channel of the banks of the country in as liberal a spirit as is consistent with conservative business methods in order to aid the South to hold the present crop until normal conditions of consumption and transportation are restored.

Mr. ANDERSON. Mr. Hunter, in your statement you referred to liberalizing certain provisions of the Federal reserve act. Now, we passed a bill just the other day. Did you have that in mind in making your statement?

Mr. HUNTER. Yes, sir. I have read very carefully that amended bill; but that amended bill, of course, overlooks the matters that I have mentioned this morning. For instance, as I have shown with regard to this emergency currency, a national bank may have \$1,000,000 paid-in capital in cash, and if it does not have 20 per cent surplus they are not entitled to participation in the distribution of this emergency fund. It seems to me that that part of the bill at least should be amended, because there are a number of national banks that have a fully paid-in capital that have commenced business in the last year—as we have in our bank in Memphis—that have not yet accumulated the 20 per cent surplus, and yet they are just as sound financially as the bank that has the surplus; and this large amount of banking capital should not be cut off from the distribution of this emergency fund because they have not the 20 per cent surplus.

The CHAIRMAN. Is it true also, Mr. Hunter, that under the provisions of this Vreeland-Aldrich bill a national bank would be permitted to loan to one individual only 10 per cent of its capital and surplus?

Mr. HUNTER. Yes. The regional bank is only permitted to lend 10 per cent of its capital stock to any individual, firm, or corporation.

The CHAIRMAN. What would you say as to liberalizing that feature?

Mr. HUNTER. I should say that ought to be liberalized in a case of emergency, though ordinarily it is a good provision.

The CHAIRMAN. How far would you go in that direction? What per cent would you think would be safe?

Mr. HUNTER. I think it might go to 20 per cent very easily.

The CHAIRMAN. You think it would be unsafe to go beyond 20 per cent?

Mr. HUNTER. Well, I do not know how far the matter might be liberalized, but at least it could be doubled with perfect safety, I should say, in an emergency.

Mr. MOSS. If this provision were enacted into law, what limit of price do you expect the banks themselves would place upon cotton where they were advancing funds and holding cotton as collateral?

Mr. HUNTER. As to that I can not say. The banks in the usual course of business, I will say, in our State last year advanced from \$40 to \$60 a bale—under normal conditions.

Mr. MOSS. Did I not understand you to say that if the farmers could get back the cost—

Mr. HUNTER. They could carry the profit undoubtedly, and I believe they would do it. The natural disposition of the southern farmer is to hold the cotton.

Mr. MOSS. I understood your statement to be that the law should be so amended that the bankers of the South could advance the cost, and therefore you would divide this into two parts, the bankers carrying the cost and the farmers carrying the profits?

Mr. HUNTER. Yes, sir.

Mr. MOSS. On that basis, what do you think would be the minimum price on cotton? I am assuming that you are going on the basis that the banks of the South ought to carry the cost to the planter. How much is that, in your opinion?

Mr. HUNTER. That varies in different localities. The cost of production of a bale of cotton in Tennessee would differ from the cost of production of a bale of cotton in Texas. I should think that would be localized as to the territory in which the cotton was produced. I can not say that I have any figures on that, but I am supposing that cotton is going to cost between \$30 and \$40 a bale.

Mr. McKELLAR. Would not the amount that the bank would lend always depend upon the good judgment of the individual banker?

Mr. HUNTER. The loaning, in my judgment, gentlemen, will have to be done by the bank in its own locality, to its own people, and under the conditions that surround the borrower as to his financial condition and every thing of that kind. That must be localized.

Mr. MOSS. Now, as to any method of valorization that might be taken, your theory is not that the Government, as such should undertake it more than to liberalize the banking laws and throw this as a local problem on the banks and the planters?

Mr. HUNTER. That appears to be the practical view.

The CHAIRMAN. You are not in favor of the general idea of valorization at all, are you, Mr. Hunter—of the Government taking this cotton over at all and holding it?

Mr. HUNTER. I can not say that I disfavor that.

The CHAIRMAN. Let me ask you another question. What per cent of the cotton crop is made on credit? Have you any idea?

Mr. HUNTER. There is another gentleman present that can tell you a great deal more on that than I. We have some practical cotton men here.

Mr. HAUGEN. The bank being responsible for a profit to the depositors and the stockholders, of course it would have to be left to the discretion of the bank as to the amount that should be advanced?

Mr. HUNTER. The banker would have to use his discretion in this emergency as he would in any other case.

Mr. HAUGEN. It would have to be left to him, or the Government would have to assume the responsibility?

Mr. HUNTER. I should think one or the other.

Mr. McKELLAR. Will you please state, so the record may show, what bank you are connected with, and whether it is a national or State bank?

Mr. HUNTER. I am vice president of the Mercantile National. It is a new bank. We commenced business on the 11th day of last May with a paid-in capital of \$500,000.

Mr. McKELLAR. You are the vice president of that bank?

Mr. HUNTER. Yes.

The CHAIRMAN. Your surplus does not come up to the requirements of the Vreeland-Aldrich Act?

Mr. HUNTER. We did not commence with a surplus. We paid in \$500,000 of capital, and, while we are practically \$20,000 to the good, we expect to build up a surplus.

The CHAIRMAN. You could not, therefore, participate in these funds?

Mr. HUNTER. I think that under the present bill our bank, like several other banks in the South, would be eliminated from the issue of this emergency currency.

Mr. McKELLAR. Unless you paid in an additional amount of surplus?

Mr. HUNTER. Unless we raised 20 per cent more, which is not a very easy matter for a bank of that size.

Mr. McKELLAR. Mr. Hunter, will you give the committee in concrete form your suggestions, if you have any, as to what ought to be done? What amendments, if any, should be adopted?

Mr. HUNTER. I think I have put into my statement, Mr. McKellar, in a suggestive way, but not absolutely fixed, my ideas along that line.

Mr. REILLY. Has your bank joined the Federal reserve system?

Mr. HUNTER. Yes, sir.

Mr. REILLY. You would, of course, have all the advantages of that system as soon as the system is organized?

Mr. HUNTER. Yes, sir. We do not seem to come under the issue of this emergency currency.

Mr. WATSON. The next gentleman that I suggest is Mr. W. G. Turner, vice president and general manager of the Memphis Terminal Corporation, owning a large warehouse out there, who will deal with the warehouse situation, cotton as collateral, and all those incidental points.

**STATEMENT OF MR. W. G. TURNER, VICE PRESIDENT AND GENERAL MANAGER OF THE MEMPHIS TERMINAL CORPORATION, MEMPHIS, TENN.**

Mr. TURNER. Gentlemen, I took the liberty of sending a letter to the committee touching nine subjects with which I am tolerably familiar. Of course I do not want to consume the time of the committee by endeavoring to exhaust all those subjects, but I shall be glad to proceed along any line that the committee may desire.

The CHAIRMAN. I think, Mr. Turner, inasmuch as you have a good deal of technical information about warehousing, cotton grading,

and the like, it would be very well for you to discuss the provisions of this bill, giving us your ideas as to whether or not it would be effective, what its effect will be in the situation—if you have given any thought to the details of the bill.

Mr. TURNER. I have given considerable thought to that subject. I think you have arranged a comprehensive measure for meeting the situation of the contemplated excessive increment of cotton, to place it as collateral to meet any emergencies that may arise. I am prepared to discuss any measure you gentlemen want to put before me to the best of my ability, but so far as generalizing on the subject is concerned, I am afraid I would only take up your time. If you care to have me do so, I will begin this letter I have started, and then that may bring forth interrogatories, and I will give you gentlemen the benefit of anything I know on the subject.

The first subject I had in mind was to describe the difference between the collateral issued on cotton and the collateral issued on grain. I might tell the gentlemen who may not be familiar with the conditions the differences between the relations of cotton to collateral and the relations of grain to collateral, and how it is impossible to figure from the standpoint of the practice above Mason and Dixon's line the relative merit of the two situations.

Now, in the grain business, where the banks and the bankers of the North have been in the habit of lending money on collateral, they have treated grain as a fungible article. In other words, when a man puts his grain in an elevator and draws money against that number of bushels of grain he does not necessarily have those particular bushels of grain. They commingle. The units of grain of that classification are all the same, and we might all have our grain in one bin, and that same grain could be brought out without any conflict to either of us and the deduction made from the original collateral.

But now, gentlemen, as far as cotton is concerned, each individual bale of cotton has its individual value and its individual identity. From beginning to end it has a difference in grade, a difference in weight, a difference in classification as to staple, a difference in ownership, making it necessary to have its identity and its individuality properly recorded and properly maintained from origin to destination. For that reason the issuance of collateral on a systematized basis on cotton, a basis that has been thought out from experience, makes the cotton problem infinitely harder—not harder, but more technical, you might say—than the question of the bushels of wheat. That is all I have to say on that subject.

The CHAIRMAN. Let us see if we get what you are driving at. Your proposition is that on account of the difference in the grades, in the length of staple, and various elements that enter into the different bales of cotton, in order that that cotton may become a safe collateral upon which money may be borrowed it is necessary first of all, as a fundamental, to work out some system of grading identification. Is that the idea?

Mr. TURNER. No. This bill relates to that subject; but while that bill is, in my opinion, absolutely correct for the future, yet for the immediate necessities every southern city, every southern market, has arrived sufficiently at the grade for the purpose of identifying values immediately upon the arrival of this coming crop on each individual

bale to establish values and meet this immediate emergency. In other words, if it should fall to my lot to handle a million bales of this cotton, I would be expected to analyze every single one of those million bales, and as fast as they would come in the weight and the grade would insure the intrinsic value of each individual bale.

The question of licensing and all those things that were brought out yesterday by Dr. Bryant seem very much in line with what is necessary in handling cotton in the South, although after analyzing some little points I feel that he was somewhat in error about them, but on the general lines of what he said—I do not see where it can meet the emergency to-day.

Mr. HAUGEN. Why not meet it to-day?

Mr. TURNER. We can meet it, but not the standardizing of the grades and all that.

Mr. HAUGEN. Cotton has already been standardized by the department.

Mr. TURNER. All they have to do then, sir, is to issue a license for a competent man, and, if he does not do his duty, take his license away. We have in Memphis, Tenn., for instance—and I hope that when I use the name Memphis you will not consider me as connected in any way with that city, because this is for the entire South; and I hope that in what I have to say, if I refer to Memphis, you will understand that I am not pressing the claims of Memphis alone.

Mr. MOSS. Mr. Turner, do I understand you to say that the difference between individual bales of cotton is so marked that you can not buy 100,000 bales of strict middling that would go in as 100,000 bales of strict middling the same as we can buy 100,000 bushels of No. 1 wheat?

Mr. TURNER. Yes, sir; you could do it, but every individual bale would have to be graded on its individual merit.

Mr. MOSS. Suppose the farmer is bringing in wagonloads of wheat. Every wagonload has to be graded; and when No. 2 wheat comes in you have, say, 100,000 bushels of standard quality No. 2 wheat. Now, if it is not possible when cotton comes in to do that same thing, then you can not standardize cotton at all?

Mr. TURNER. I would like to answer that question as clearly as I can. As to wheat or corn, you standardize that in bushels. You do not have a separate mark on every bushel. But a farmer will bring in five different grades of cotton, representing five different interests with five different marks on it, and each of those bales—and there are how many classifications, Mr. Love, including everything?

Mr. LOVE. Twenty-five to forty.

Mr. TURNER. Twenty-five to forty grades in the variation of staples in millimeters, which makes it a very, very difficult task.

Mr. HAUGEN. I think the same thing would apply to grain. The grain that is brought in is not all exactly of that particular grade; it may be a little above or below; but it goes into those particular bins—No. 1, No. 2, or No. 3, or whatever it may be. Now, if this standardization is to be of any value whatever we must have the same rule apply to cotton. On the question of grades, as I understand it, the department has fixed nine different grades. There may be any number of different grades within each of those grades; it is just a question of how many grades the department or the cotton trade sees fit to fix.

Mr. TURNER. We left it entirely to the department; but I feel quite sure that the variation of prices is too acute, too enormous, on those minute portions that you refer to.

Mr. HAUGEN. Yes; but the first thing is to classify it, and then place the cotton in its proper place in the proper class—strict middling or whatever it may be. The cotton is classed, brought to your warehouse, and put in a certain compartment by itself, and all of that cotton in that particular storehouse would represent a certain grade, the same as wheat which goes to a certain bin.

Mr. TURNER. I do not think I can agree with you on that particular point; but I am not sure that I understand you.

Mr. HAUGEN. If I have 100 bales of cotton it may be of two or three different grades. I send it to your warehouse and it is graded or classed by the classer. It may be middling, strict middling, or any other grade. You give me a receipt for two bales of strict middling, 10 bales of this, 10 bales of that—

Mr. TURNER. No; I would not give you that kind of a receipt. I would give you a receipt for 1 bale, as nearly every one of those 10 bales of cotton would represent an individual planter's interest, possibly.

Mr. HAUGEN. What do you mean by that?

Mr. TURNER. If it were numbered—if I tagged it and it were marked "John," there would be "John-1," "John-2," "John-3," and so forth, to illustrate; and the chances would be very strong that there would be 10, due to the fact of each individual receipt representing a different account, although it might be the same classification, and one man might want his bales held and the other man might want his sold. And while I do not stand as opposed to that, because your minds may be able to work it out better than mine, yet, from the standpoint of bunching cotton together, I do not think it would work.

Mr. HAUGEN. Then of what value is this standardization if you are not going to pay any attention to the standardization—if you are going to identify each bale?

Mr. TURNER. I am not competent, I think, to argue the intrinsic portions of this bill, but the way you are putting it to me I am free to say that if it is intended to be handled that way I think it would be impracticable, not because I think there is any reason why it should be impracticable, but from experience and what I know of the situation, if it is the intention of standardization to carry it on in that way, I can not commit myself to the statement that that is a proper basis of handling it.

At the same time I did not understand that to be Dr. Bryant's intention. Dr. Bryant, as I understood it, intended to standardize bales, to license cotton classers, and protect the grower, to stand between him and fraud; whereas now—as the gentleman stated, but I do not state—classifications of cotton are made on fraudulent representations, and the man who is the purchaser of it does not know. The United States could supervise the question of standards, the issuing of licenses, and the classifying of cotton, and have that cotton identified at destination in such a manner that it could be immediately traced to origin—which can be done and is done—to the very gin where it was ginned, in a very, very short space of time.



Mr. JACOWAY. The whole object of this is to protect the purchaser of the cotton?

Mr. TURNER. Yes, sir.

Mr. JACOWAY. Suppose there is a tenant that raises eight bales of cotton. He owes for his store account, say, \$15 on each one of those bales. He owes for the picking. He owes the landlord for the rent. Then he owes a lot of other little accounts. How would you deal with a proposition of that kind? How would you advance on that so you would give relief to the little man—not to the man that can pay for the picking, not to the man who owns the land, but to the tenant?

Mr. TURNER. You are diverging from this subject upon another question, are you not?

Mr. JACOWAY. You know, most of the cotton of the South is tenant cotton.

Mr. TURNER. I can not answer your question, but I would like to know whether you connect it in any way with this other inquiry?

Mr. HAUGEN. I suggest, Mr. Chairman, that we get through with one thing at a time. Let us first take up the standardization and find out if these people are for the standardization of cotton. My own understanding is this—

Mr. JACOWAY. I will withdraw the question then.

Mr. HAUGEN. My understanding is that this bill provides for the standardization of cotton, that there may be uniform grades of cotton.

Mr. TURNER. Yes, sir.

Mr. HAUGEN. And that we may have some one to determine the exact grade of that cotton, and the department will issue licenses to competent men to determine the exact grade of that particular cotton, and when the grade is fixed it may be turned into the warehouse and receipted for and placed by itself. Are you in favor of such legislation?

Mr. TURNER. As a warehouseman I am not opposed to experts. I neither buy nor sell a bale of cotton. But I think that in the interest of cotton it would be a very, very favorable act. Remember I am not a buyer or seller of cotton. I do not deal with that commodity in that respect; but as an observer I agree with you, sir, it would be a very, very good act to pass for all parties concerned. If I were to address myself to the different portions of the bill as they come up, I probably could go deeper into it. But as you ask me as an individual, I think it is one of the best things on these lines that could be passed.

Mr. HAUGEN. I ask you as a warehouseman if it is practicable to do that?

Mr. TURNER. No; it is not practicable the way you say—

Mr. HAUGEN. You would continue to practice tagging every bale of cotton—

Mr. TURNER. Yes, sir.

Mr. HAUGEN. And to return the same bale that was turned in?

Mr. TURNER. Yes, sir.

Mr. HAUGEN. Then, of what value is the standardization?

Mr. TURNER. I do not know. I do not know what the intention of the standardization is, except the way it was propounded by Mr. Bryant.

Mr. HAUGEN. You spoke of standardization into classes.

Mr. TURNER. That would be to establish thoroughly the difference of opinion upon the kinds or grades, and say that a bale of middling was middling all the way through, and a farmer who produced a middling bale, if anybody gave him the standard of low middling, would have recourse through the Government that licensed these men to get his money back.

The CHAIRMAN. I think Mr. Haugen and you probably are talking at cross purposes.

Mr. TURNER. I believe we are.

The CHAIRMAN. First of all, the purpose of standardizing the grades is to bring together the best expert opinion in the cotton trade on the proposition as to what a given grade is.

Mr. TURNER. I understand.

The CHAIRMAN. What middling shall be, what strict middling shall be, what good ordinary is; and once the standards are fixed those grades will be established at Memphis, as well as at Augusta or Greenville or anywhere else the world over.

Mr. TURNER. Yes, sir.

Mr. HAUGEN. That has been done already by the department.

The CHAIRMAN. That has been done. Now, the next proposition is the issuing of licenses to graders, who in turn will say whether or not a bale of cotton brought in by the farmer to the local buyer is middling, strict middling, or some other grade, in accordance with the standard fixed by the Government. Now, those seem to be the two purposes involved in the bill.

Mr. HAUGEN. Now, then, those classers are to determine the grade. That is the purpose of licensing these inspectors. They are to pass upon that particular cotton and determine the exact grade.

The CHAIRMAN. In other words, when the farmer comes in with the bale of cotton the bale is sampled; the classer goes through it and looks it over, and he says that this bale analyzes strict middling, good ordinary, or something else.

Mr. HAUGEN. And he certifies to that, and that is the end of it.

The CHAIRMAN. Exactly.

Mr. TURNER. Then the business of the warehousemen begins, and the classers' duty ceases forever. He has nothing more to do with that bale of cotton.

The CHAIRMAN. That is right.

Mr. HAUGEN. Then if either party is dissatisfied they may appeal to the Secretary of Agriculture to pass upon it—

Mr. TURNER. And the man that has committed the fraud is relieved of his license, and can not practice any more tactics of that character against the producer.

Mr. HAUGEN. Now, as a warehouseman, that relieves you of all the responsibility of classing the cotton?

Mr. TURNER. Absolutely—though I do not have that responsibility now, but it does relieve everybody of such responsibility.

Mr. HAUGEN. Now, here are a thousand bales of cotton classed as strict middling. It is offered to you for storage, and you accept it.

You put it in a certain storeroom, and the owner receives a receipt from you.

Mr. TURNER. A warehouse receipt.

Mr. HAUGEN. So many bales of cotton of a certain grade?

Mr. TURNER. He will receive a certificate from me, or 1,000 certificates rather, naming every bale of cotton, although they are the same grade, for they might belong to a thousand different people and one might want to hold it for a month, another for a year, and another want to sell in 10 minutes.

Mr. HAUGEN. Why is it necessary to issue a thousand certificates for a thousand bales of cotton when they are all identical one with another?

Mr. TURNER. They are not identical except in classification; they have the variation of weight.

Mr. HAUGEN. But why not issue a certificate for so many pounds?

Mr. TURNER. There are, then, a thousand different ownerships.

Mr. HAUGEN. In this case there is one owner——

Mr. TURNER. If I received a thousand bales, it might be all good middling and each bale might contain 500 pounds exactly, but I would have to issue those receipts for the account of the individual for whom I stored that cotton and to whom it was billed. That would be my duty as a bailee—not by the value of the bale of cotton, but by the mark—to issue it to the man for whose account it was originally placed, and the moment I had issued that receipt to forget him. Because then it would cease to be for his account and be for the account of the document I would issue, which would be a negotiable document, and it would then stand on the books against serial No. 456, subject to the return of that receipt properly indorsed, and the original owner would have nothing more to do with it.

Mr. HAUGEN. And upon the surrender of that receipt you would return that identical cotton? Is that the idea?

Mr. TURNER. That is the idea.

Mr. HAUGEN. Why is that necessary? That is what I am trying to get at.

Mr. TURNER. Because that is the only legal way, in the opinion of a great many of the best legal minds in the country. That is the only legal way of issuing the warehouse receipts.

Mr. HAUGEN. That is not done with wheat or grain?

Mr. TURNER. That is just the point I wanted to make.

Mr. HAUGEN. All No. 2 wheat is not alike; it varies in quality.

Mr. TURNER. But you can pump out of an elevator so many bushels of No. 2 wheat, but when you go to pump out that cotton each bale is done up in a separate package of its own with a different mark on it and belongs to a different man and has a different price. It is only by accident that two bales have the same price. I can not confuse interests.

Mr. HAUGEN. It is a question of bookkeeping; that is all.

Mr. TURNER. I can not agree with you.

Mr. HAUGEN. There must be some reason why that particular bale of cotton should be returned to the owner that does not apply to wheat.

Mr. TURNER. There is an absolute parting of the ways when it comes to the question of grain and cotton, and for that reason I

brought up the subject. If I could only be with you gentlemen on the spot, I could show you better than I could tell you.

Mr. HAUGEN. But it occurs to me that when cotton is graded a certain way it would be all of the same quality and the same value.

Mr. TURNER. For the same staple.

Mr. HAUGEN. The staple, like everything else, is taken into consideration.

Mr. TURNER. But this chair, say, weighs 500 pounds and the other chair weighs 526 pounds—

Mr. CUTRER. The difference is that wheat is fungible and cotton is done up into separate packages. Cotton is an individual package and is not fungible.

Mr. TURNER. If it were like cotton and handled in the same manner, you would have to can every bushel of your wheat.

Mr. HELGESEN. Out on the Pacific coast, I understand, they handle their wheat in sacks of  $2\frac{1}{2}$  bushels, approximately. Of course, the sacks vary somewhat in actual weight. The harvesting machine cuts it, thrashes it, and sacks it. Every one of those sacks has a different weight, and they are handled from the producer to the consumer or miller in sacks. Now, that wheat is graded in each individual sack, and the sacks are put in a section of the warehouse where that particular grade of wheat is kept, and after that there is no distinction made in the sacks. Why could not that be done with cotton?

Mr. TURNER. For the very reason I have already stated. I believe I have exhausted myself on that subject, although I should be very glad to make it clear, if I could. Each sack represents, as a rule, a different interest. Now, I will assume I am storing your grain instead of storing your cotton. You have sent me 20 sacks of grain of any given classification. I give you a warehouse receipt for that grain—so many pounds, if you are going to deliver it by a total weight. But if you are going to deliver those sacks by their separate weight, and each sack represents a distinct and separate value and a separate and specific relation between the thrashing machine or the farm on which it was sacked and the purchaser, I think I should be obliged under the law—I have been so advised by gentlemen from the North who have gone into the question—to issue you a separate receipt for every sack of grain.

Mr. HELGESEN. Under the old system, I think you are right; but if the new system of standardization is one that will give a definite value to every bale of cotton, I can not see why it could not be standardized and put into storage with other bales of the same standard.

Mr. TURNER. If you standardize it and then standardize the ownership, I think you can do it. But unless you standardize the ownership, I can not agree with you. At the same time, I do not mean to say that it can not be done. I have a conviction on that point, and unless I can be otherwise informed I am going to stand on it.

Mr. HELGESEN. You have the experience and are in a position to give us the information. That is what we are looking for.

Mr. TURNER. I am very glad to do it, and I hope you gentlemen will feel I have tried to do it. I am using every effort in my power.

Mr. McKELLAR. I think I can explain to the gentlemen the trouble they are laboring under. Mr. Turner is the head of the largest cotton warehouse in the world.

**Mr. TURNER.** The largest warehouse in the world.

**Mr. McKELLAR.** Just one moment. This cotton comes in to Memphis in the fall of the year. We have there what are known as the factors—a class of merchants who lend to the farmers or to the tenants on various plantations. This cotton is shipped in by the tenants or farmers to these merchants and stored in these warehouses. Now, manifestly, these bales of cotton vary in weight. Some bales of cotton weigh 350 pounds and some 400 pounds and some 450 pounds. They all vary in weight, and practically all of them vary in grade.

Now, they are all stored in this warehouse in that form. The factors have advanced money on all of them, probably, and the factors have an interest in them, but the farmers themselves have not yet sold that cotton.

Now, take Mr. Love over there, who is a factor. Mr. Love has 40 bales sent in to him this morning, and he has put them in Mr. Turner's warehouse—all of them varying in weight and grade. They may have come from 20 customers. Now, in order to give each one of his customers the absolute value of his cotton, when it is sold, he has got to have some plan of identifying each particular bale of cotton. There is no way in the world around it. He can not put them in hodgepodge, and say that John Smith, a tenant over there in Arkansas, on Mr. Jacoway's farm, is entitled to one bale of cotton. This tenant may have sent in a bale of ordinary cotton weighing 350 pounds. He can not take an average bale of 500 pounds—which is an average bale—of middling cotton and sell that for this particular tenant. He has got to be able to locate that particular bale of cotton.

When the cotton is sold, then the classification, as I understand it, as provided for in this bill, begins to take place. If a cotton firm in England—take McFadden & Co., the largest buyers in the world—undertakes to buy 1,000 bales of middling cotton in Memphis, they can have it segregated and standardized, and the law of standardization will apply at once. But the thing Mr. Turner is talking about is the initial part of it, where, in order to do justice to each and every owner of the cotton, it is impossible to have any other method of handling it except to identify each particular bale of cotton in the warehouse.

**Mr. Moss.** Does that part of the transaction that you are describing involve any interstate commerce?

**Mr. McKELLAR.** Of course, Memphis is right in the corner of three great States—Mississippi, Arkansas, and Tennessee. The most of our cotton comes from Mississippi and Arkansas, and that is interstate commerce, incidentally.

**Mr. Moss.** But in a general way the warehousing takes place before it gets into interstate trade?

**Mr. McKELLAR.** Oh, surely; that is all local. It is entirely local. I think, Mr. Turner, that is the way it is done.

**Mr. TURNER.** Yes, sir; I thank you, every much, for assisting me.

**Mr. HAUGEN.** Mr. Turner is speaking of the present system. You have been referring to the present system.

**Mr. McKELLAR.** Yes, sir.

**Mr. HAUGEN.** Now, it is proposed to change it. We are now proposing to standardize cotton. Why not let the classifying take place

at the initial point—let the cotton be standardized or graded before it enters the warehouse and just solve the whole difficulty?

Mr. MCKELLAR. The difference in ownership and the difference in weights would prevent that, Mr. Haugen.

Mr. HELGESEN. But, Mr. Haugen, the standardization of cotton does not affect his warehouse price at all.

Mr. HAUGEN. Inasmuch as it does not enter interstate commerce; is that your idea?

Mr. HELGESEN. Yes.

Mr. HAUGEN. But the cotton can be classed by mutual consent.

Mr. HELGESEN. But still each bale will have a different value, and it can not be warehoused like wheat. As I understand it, a warehouseman of cotton is in the same situation as if he had warehoused horses or cattle. If a man put in 100 horses, he would have to get the individual horses and not some other horses.

Mr. HAUGEN. Would you apply that to wheat or barley?

Mr. HELGESEN. Not at all. A bushel of No. 2 wheat is worth a bushel of No. 2 wheat.

Mr. HAUGEN. Yes, sir; and 100 pounds of strict middling is worth 100 pounds of strict middling, wherever you put it.

Mr. TURNER. But a bale of strict middling is not always worth a bale of strict middling.

Mr. HAUGEN. But it is easy to find, if one bale weighs 512 pounds and another weighs 510; you add the two and you have 1,022 pounds.

Mr. TURNER. But the fellow that owns a \$510 horse is going to make a kick to Mr. Love if he goes and averages up the two horses.

Mr. HAUGEN. But under this bill the horse will be valued at \$510. It is not possible to standardize horses, while we do think it is possible to standardize cotton.

Mr. TURNER. I believe it is. I am simply defining the warehouse situation as it is. I am quite sure that it could be done; but on that particular feature you are speaking about I am prepared to commit myself, simply as an individual, that that can not be done legally.

Mr. ANDERSON. What do you mean when you say it can not be done legally? Under what laws?

Mr. TURNER. The laws of the State, I am advised by the attorney, permit us to issue a one-bale receipt or identification; and I have been advised as to that by the lawyers of some of the principal northern banks.

Mr. ANDERSON. Of course, that would only apply to a business within the State. Your State could not pass a law which would affect interstate commerce.

Mr. TURNER. I do not suppose it could.

Mr. HELGESEN. Who would take any other kind of receipt?

Mr. TURNER. Some do even now, but I do not think any of the banks now are taking anything but the individual receipts.

Mr. HELGESEN. If they took a receipt for 100 bales of cotton, they might get cotton not worth half as much money as was put on it. You do not standardize the bale; you standardize the cotton; the bales vary.

Mr. TURNER. The gentleman over there asked me a question. I would be glad to hear from him now, because I did not answer his question.

Mr. JACOWAY. My question was this: A great per cent of the cotton produced in the South is tenant cotton. Say a tenant has eight bales of cotton. He owes his landlord; he owes his store account; he owes the doctor; he owes for the ginning of the cotton.

Mr. TURNER. Yes, sir.

Mr. JACOWAY. Now, under your theory, how is this going to help him?

Mr. TURNER. If he wants to send me his bale of cotton consigned to John Brown, we will consider that tenant's name—

Mr. JACOWAY. How can he send it to you when there is a mortgage on it?

Mr. TURNER. Then the man that has a mortgage on it will send it to me. He has to deliver the bale to the man that has the mortgage on it. Maybe it is mortgaged to the gentleman from Clarksville seated right next to you. If he has a mortgage on it, and he sends it to me, I will give him a warehouse receipt, because I do not know anything of the affairs between Mr. Brown and himself. He owes him some money, and has given him the bale instead of the \$15.

As soon as that cotton comes to me properly billed by the railroad from the gentleman from Clarksville, I will send him by registered mail a warehouse receipt, either payable to bearer, subject to the return of the receipt, so that it may become legal tender to be spent in the Clarksville stores, or to order, which makes it negotiable, and then he will have to settle his account with you. The man that sends the bale of cotton to me—I know nobody, so far as I am concerned, but the bale that comes to me in that man's name. I can not go a step beyond that.

Mr. JACOWAY. All this is on the theory of keeping cotton from being sacrificed. Do you not think a man who had a mortgage on a bale of cotton would take the benefit of this theory you have given and take the profit instead of letting the tenant have it?

Mr. TURNER. I really do not know about that. To destroy confidence in business would destroy a very large part of it. I am only speaking from a warehouse standpoint. I only know that bale came to me in the name of John Brown. I issued my receipt to John Brown—which became my duty—and after that receipt leaves my hands I do not know John Brown; I know that receipt.

The laws of every State, I believe, cover the point of whether John Brown has the right to hypothecate that receipt in the bank, and I think the laws of every State entitle John Brown to hypothecate his warehouse receipt to the extent of his equities, and if he goes beyond the equities I think it is stated that he commits a crime.

The CHAIRMAN. As a matter of fact, your warehouse receipts around Memphis pass almost as money?

Mr. TURNER. Yes, sir. I was going to touch upon that.

Mr. McKELLAR. Mr. Turner, won't you give to the committee just to what extent Memphis is a cotton market; how much of the crop is made within a given radius of Memphis?

Mr. TURNER. The entire crop of the United States, we will assume, is 14,000,000 bales. The area of growth of that crop is from the Rio Grande to Virginia and from the Gulf of Mexico to the Mason and Dixon line. Taking Memphis as a center and drawing a circle around 150 miles from Memphis, Tenn., there are over 2,000,000 bales of that crop grown in that circle. Take the large State of

Texas, take all of these large areas, and I would not be surprised if you investigated the matter very thoroughly you would find that of last year's 14,000,000 bales 2,500,000 bales were grown within 150 miles of Memphis.

Mr. McKELLAR. Now, Mr. Turner, will you state how much of this cotton is warehoused in the Memphis Terminal Co.'s warehouse there in Memphis, the receipts of which circulate virtually as money in Memphis?

Mr. TURNER. I will give you the actual receipts of our plant for 1913-14, the season that closes the 31st day of August. We received 439,874 bales, or practically—if you will allow me to use that figure—half a million bales.

Mr. McKELLAR. And the receipts you issue in the way you describe circulate virtually as money throughout that district?

Mr. TURNER. Not only in Memphis but in many of the towns contiguous to Memphis. So, I think, I can safely say that, eliminating the factor and the commission merchant, I have dealt directly with some 40,000 planters and producers who have eliminated every other feature but taking my receipts and hypothecating them locally or using them to pay debts.

Mr. ANDERSON. If these certificates are used to pay debts, at what value do they circulate?

Mr. TURNER. They circulate on the judgment of the cotton exchanges on the price of middling cotton. The price is predicated on the price of middling.

Mr. McKELLAR. Will you explain just the method by which the actual money is obtained on these receipts?

Mr. TURNER. I will explain that, and I think it will probably enlighten these gentlemen on that subject. If you will permit me, I would like to submit right here the modus operandi in writing, and the accompanying warehouse receipts.

The CHAIRMAN. Without objection, we will make that a part of the record.

Mr. HAUGEN. Does this state the number of pounds to the bale?

Mr. TURNER. There is a place for it.

Mr. HAUGEN. But you never insert it?

Mr. TURNER. I never insert it unless I am told to and paid for it. I have to get paid for the weighing, which is a very nominal sum.

(The documents here submitted by Mr. Turner are as follows:)

[Memphis Terminal Corporation, Memphis, Tenn.]

#### EXHIBIT A.

##### FACTORS ONE-BALE WAREHOUSE RECEIPT.

John Doe place their cotton on storage with the Memphis Terminal Corporation.

Their cotton is stored in section L and is received and delivered on the courts south and north of section L.

Their cotton is handled by bonded employees of the Memphis Terminal Corporation.

Every bale that reached section L for account of John Doe is checked by the inbound department of the corporation and properly recorded.

Every bale taken from section L is checked by the collateral department, all bonded men, before leaving the delivery court of section L. It is again checked by the compress department on receipt at the compress.



All cotton is checked and all marks on the bale are recorded on receipt of each bale and a one-bale warehouse receipt—that represents the tag number and the entire mark on the identical bale—is issued to John Doe.

A one-bale receipt is issued to John Doe as above for every bale received for their account. For sample see CCC No. 5695 receipt.

It necessarily follows that not a single bale can be delivered for John Doe without the return of the receipt representing the identical bale desired delivered.

When the receipts are delivered to John Doe, document No. 7 or No. 5 is signed by John Doe.

The Memphis Terminal Corporation is furnished signatures by John Doe, as per document No. 3.

When an order for delivery is issued, each bale is specified separately as the bale to be delivered; and with the order for delivery, and attached thereto, is the identical receipt for each and every bale mentioned in the order.

These orders for delivery, with attached warehouse receipts, are delivered to our main office uptown and receipted for, as per document No. 6, and each receipt checked against each bale desired to be delivered. If correct, the order and receipts are sent to the plant in locked mail bags and again checked by our bonded representative there. If found correct the second time, the order to be delivered is stamped as document No. 4 indicates.

The cotton then is delivered to the buyer, the receipts, properly canceled, are restored in the original book to its corresponding carbon copy, and pasted back, for reference at any time.

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#### EXHIBIT B.

##### RECEIPTS ISSUED TO BUYERS.

After cotton has been sold by a factor to a buyer the Memphis Terminal Corporation is ordered to take charge of the cotton by the purchaser or buyer, as per document 00.

As soon as the cotton is checked by mark and counted, two characters of receipts are issued—the one-bale receipt, if desired (see No. 11), or the block receipt if more than one bale (see No. 12).

These receipts hold the cotton subject to the return of the receipt, properly indorsed. The cotton is held for the account of the receipt that has been issued for it until this receipt is returned.

The holder of the receipt wishes to ship his cotton; he returns his warehouse receipt and exchanges it for a clearance (see No. 19), which, by our contractual relations with the carriers, enables him to secure his B/L, which the railroads exchange for the clearance we issue in exchange with the holder for the warehouse receipts.

The clearances are then sent us by the railroad (whose agents by contract with the railroads we become) as soon as B/L's are signed on our clearances, and we are then ordered to ship this cotton by the railroads in accordance with the B/L they have issued.

Receipts, both Exhibits A and B, are the same legal value, but the different methods of handling the cotton employed by the factor and the buyer makes it necessary for the proper conduct of the business of each that the receipt shall be handled in the manner as above. Any other method would install substitution and would be dangerous from the banking standpoint to hold as gilt-edge collateral.

MEMPHIS TERMINAL CORPORATION,  
By W. G. TURNER, *Vice President.*

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MEMPHIS TERMINAL CORPORATION.

NEGOTIABLE ONE-BALE WAREHOUSE RECEIPT.

CCC No. 5695.

MEMPHIS, TENN., 9/1, 1914.

Received by the Memphis Terminal Corporation, at New South Memphis, Tenn., for account of John Doe, stored in warehouse L, section No. 850 to 880, inclusive, or courts, one bale of cotton, in good order and condition, except as noted.

The below-described one bale of cotton is held on storage and will be delivered to the order of said John Doe only, upon the return of this receipt, properly indorsed, and the payment of all charges for storage, labor, etc., as may have accrued under the current tariff of this company up to and including the date of the return of this receipt. We are not responsible for loss by fire, acts of Providence, natural shrinkage, old damage that may be concealed. Charges follow the cotton.

Marks.		Weight.	Condition.
J. H. M./T 486.	ONE BALE OF COTTON.		

MEMPHIS TERMINAL CORPORATION,

By .....

(Document No. 7, above referred to:)

MEMPHIS TERMINAL CORPORATION.

MEMPHIS, TENN., ....., 191...

Received from Memphis Terminal Corporation negotiable, one bale warehouse receipts covering ..... bales of cotton tag No. .... to tag No. ...., inclusive.

By .....

(Document No. 5, above referred to:)

MEMPHIS TERMINAL CORPORATION.

MEMPHIS, TENN., ....., 191...

Received from Memphis Terminal Corporation negotiable 1-bale warehouse receipts as below, covering ..... bales of cotton rejected in order No. ....

No. warehouse receipt.	No. warehouse receipt.	No. warehouse receipt.	No. warehouse receipt.	No. warehouse receipt.	No. warehouse receipt.
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

(Document No. 3, above referred to:)

MEMPHIS, TENN., .....

MEMPHIS TERMINAL CORPORATION.

City.

GENTLEMEN: Below please find the names and the signatures of those who are authorized, until you are otherwise notified, to indorse negotiable warehouse receipts and clearances issued by yourself for our account:

Mr. .... will sign .....  
 Mr. .... will sign .....  
 Mr. .... will sign .....  
 Mr. .... will sign .....  
 Mr. .... will sign .....  
 Mr. .... will sign .....

Yours, truly,

-----  
 This form must be signed by one who holds power of attorney.

(Document No. 6, above referred to:)

MEMPHIS TERMINAL CORPORATION.

MEMPHIS, TENN., -----, 191---

Received of -----, warehouse receipts  
covering ----- bales of cotton, orders Nos. ----- B/C.

MEMPHIS TERMINAL CORPORATION,

By -----

(Stamp No. 4, above referred to:)

Warehouse receipts surrendered  
Memphis Terminal Corporation.

By-----

(Document No. 00 above referred to:)



(Document No. 11, above referred to:)

Accrued storage from .....

MEMPHIS TERMINAL CORPORATION.

Negotiable one-bale warehouse receipt.

Tag No. 14186.

Y 553.

Received by the Memphis Terminal Corporation, at New South Memphis, Tenn., for account of John Doe, one bale of cotton, in good order and condition, except as noted.

MEMPHIS, TENN., *September 1, 1914.*

The below-described one bale of cotton is held on storage and will be delivered to bearer only upon the return of this receipt, properly indorsed, and the payment of all charges for storage, labor, etc., as may have accrued under the current tariff of this company up to and including the date of the return of this receipt.

We are not responsible for loss by fire, acts of Providence, natural shrinkage, old damage that may be concealed. Charges follow the cotton.

Marta.	No. bales.	Description.	No. bales.	Condition.	Compressed cotton.	
					No. bales.	No. bands.
DOE TAGGED. DOE WEIGHT.	1	Not thoroughly covered.				4 on.
	1	Covering insufficient to retain marks.		Damage not concealed.		5 on.
		Covering of bad quality, easily torn.		More or less wet.		6 on.
		More or less stained.				7 on.
		More or less soiled.				8 or more.
		Of dimensions greater than standard of 27 x 54 inches.				Bds. open.

MEMPHIS TERMINAL CORPORATION,

By .....



(Document No. 19, above referred to:)

Hundred bales.	
10 Bales.	
20 Bales.	
30 Bales.	
40 Bales.	
50 Bales.	
Bales.	
Bales.	
Bales.	
Bales.	
Bales.	
Bale.	
Bales.	
Bales.	
Bales.	
Bales.	
Bales.	
Bales.	
Bales.	
Bales.	

Clearance B 84.

Received by the Memphis Terminal Corporation for account of John Doe the following cotton in good order and condition, except as noted:

It is understood that by contract with the carrier, of the terms of which the depositor has notice, this company insures carrier liabilities and interest only, that carrier liability begins only upon the transfer of this receipt to the carrier and the issuing of a bill of lading; that no agent of the carrier has authority to begin carrier liability before bill of lading issues, and that this company remains the bailee, and the cotton under the absolute control of the depositor until bill of lading issues.

The insurance effected by this company remains in full force and terminates only when the cotton loaded on cars or vessels of the carrier has crossed the boundary line of the premises of the Memphis Terminal Corporation. Any claim for damage or loss must be filed in writing before the cotton leaves the premises of the Memphis Terminal Corporation.

No. bales.	Marks.	No. bales.	Description.	No. bales.	Condition.	Compressed cotton.	
50	CORD.	50	Not thoroughly covered.		Damage not compensated.	No. bales.	No. bands.
		50	Covering insufficient to retain marks.				4 on.
			Covering of bad quality, easily torn.		More or less wet.		5 on.
			More or less stained.				6 on.
			More or less soiled.				7 on.
			Of dimensions greater than standard of 47 x 54 inches.				8 or more.
							Hds. open.

MEMPHIS TERMINAL CORPORATION,

("Clearance" printed across face.)

By .....

Mr. JACOWAY. How long would this cotton have to be kept in the warehouse, as a general rule?

Mr. TURNER. I will give you that very definitely. I have handled, as I say, 500,000 bales of cotton, and my peak load was carried the 12th day of last January, which was 236,000 bales at one time. And the way cotton is held has changed in the last 25 years. It used to be we would use the room three times or four times. But the manipulation of the receipt has enabled people to hypothecate these receipts and hold the commodity against them, and the result is that I hold nearly half the entire receipts of my place at one time.

Mr. JACOWAY. What would the insurance per bale be, as a general rule?

Mr. TURNER. That varies. We have the distinction of having the cheapest insurance in the world.

Mr. JACOWAY. About how much is it, approximately?

Mr. TURNER. It is held in the low-rate warehouses—sprinkled warehouses—at 20 cents per \$100 value for one year, so that a bale of cotton is held in my warehouses for one year at 10 cents.

Mr. JACOWAY. What would the brokerage be?

Mr. TURNER. I do not know.

Mr. JACOWAY. What would the other overhead charges be? In other words, I am trying to get at what it would cost to hold a bale of cotton the length of time you think it ought to be held.

Mr. TURNER. Here are the tariffs of the Memphis Terminal Corporation. And I want to say this to you gentlemen, in answer to the question, that in this crisis those records will not be changed.

(The document here submitted by the witness is as follows:)

#### TARIFF MEMPHIS TERMINAL CORPORATION, SEASON OF 1914 AND 1915.

[Any or all charges in this tariff are subject to change without notice. Effective Sept. 1, 1914.]

*F. o. b. or cotton sold to arrive subject to buyer's inspection.*

#### CHARGES.

NOTE.—The term *f. o. b. or cotton sold to arrive*, and *f. o. b. restored cotton*, will be considered to apply only to cotton as purchased elsewhere to be delivered *f. o. b. or to arrive Memphis*, for concentration, substitution, assembling, or buyer's inspection. No other character of cotton will be considered as such and handled under the charges enumerated under this heading.

	Cents.
1. Receiving uncompressed cotton from drays, or unloading from cars, and ranging same for weighing, classing, marking, tagging, etc., including sampling and marking at time it is received (if desired) and 12 days free storage, per bale.....	10
2. Receiving compressed cotton from drays, or unloading from cars, and arranging same for weighing, marking, tagging, etc., loading same on cars or drays when ready to go forward, including sampling and marking at time it is received (if desired) and 12 days' free storage, per bale.....	32½
Weighing at time it is received, per bale.....	5
Arranging and weighing at a time other than when received, per bale..	10

NOTE.—Items Nos. 1 and 2 will include marking when press is furnished duplicate marking lists in numerical order within 72 hours from time cotton is received. After expiration of 72 hours cotton will be set aside and second handling charges applied.

NOTE.—When *f. o. b. cotton* has been handled as above and negotiable one bale warehouse receipts have been issued for part of a lot, that part will be considered as *f. o. b. restored cotton*, and charged for accordingly (see p. 4). The



remaining part will be considered as ship-marked cotton and charged for accordingly (see p. 5).

**NOTE.**—As items Nos. 1 and 2 are charged for on the basis of one direct handling, therefore the presses will have to be notified in writing before the arrival of the cotton of its being f. o. b. or cotton sold to arrive, otherwise it will be set aside and "second handling" charge will be made and collected when this cotton is ordered arranged for working.

	Cents.
Second handling and each subsequent handling, per bale.....	5
Resampling, per bale.....	10
Marking (by tag numbers), per bale.....	10

*F. o. b. restored cotton.*

RECEIVING, STORAGE, AND UNLOADING CHARGES ON F. O. B. RESTORED COTTON OR COTTON FOR WHICH NEGOTIABLE ONE-BALE WAREHOUSE RECEIPTS ARE ISSUED AFTER F. O. B. INSPECTION.

Storage on uncompressed cotton received at the compresses for account of buyers or others by brand mark, tag numbers, or other marks, for concentration or f. o. b. inspection, including unloading from cars, lining out, sampling at time it is received, and to be subsequently ordered out by single bales to be re-marked, will be considered as f. o. b. restored cotton and charged for accordingly.

	Cents.
Storage for the first month or fractional part thereof, per bale.....	20
<b>NOTE.</b> —Thirty days will be considered one month.	
Extra storage for each succeeding month or fractional part thereof, per bale.....	10
Weighing at time it is received, per bale.....	5
Arranging and weighing at a time other than when received, per bale.....	10
<b>NOTE.</b> —Loading out cotton uncompressed or delivering to drays, per bale....	20
Loading out linters uncompressed or delivering to drays, per bale.....	5
Compressed cotton, when received already compressed at the compresses, as f. o. b. restored cotton, storage charges same as above enumerated plus a loading charge, per bale.....	20
Weighing charges same as above.	
Applying special tags when furnished by shipper, per bale.....	1
Each subsequent lining out, per bale.....	5
Resampling, per bale.....	10

**NOTE.**—Buyers desiring to handle local cotton on negotiable 1-bale warehouse receipts by tag numbers will be charged as enumerated above. Trolley service to f. o. b. department extra.

**NOTE.**—Buyers will be immediately notified on the arrival of f. o. b. cotton, sold to arrive, or f. o. b. restored cotton, and 72 hours after date of notification will be allowed for working same by the buyer; the press then reserves the right of "setting this cotton aside," and "second handling charge" will be made and collected when this cotton is arranged for working.

RECEIVING, STORAGE, AND LOADING CHARGES ON SHIP-MARKED COTTON, FOR WHICH BLOCK WAREHOUSE RECEIPTS ARE ISSUED.

Storage, for the first 12 days, free.

**NOTE.**—This free storage time of 12 days carries with it the permission of compressing the cotton at our option.

When the cotton has been compressed the shipper becomes responsible for the compression charge, if this cotton is ordered shipped flat or hauled by drays.

	Cents.
If cotton is ordered held in the flat form, storage will be charged and collected from the date of receipt, if not ordered shipped on the day received, per bale.....	20
<b>NOTE.</b> —Loading out cotton, uncompressed, or delivering to drays, per bale...	20
Loading out linters, uncompressed, or delivered to drays, per bale.....	5

Cents.

NOTE.—Compressed cotton: The handling charge on cotton that is received already compressed, includes loading on cars or drays when ready to go forward and 12 days free storage, per bale..... 32½  
 Storage (to start on the 13th day): For first month or fractional part thereof, per bale ..... 20

NOTE.—Thirty days will be considered as 1 month.

Extra storage for each succeeding month or fractional part thereof, per bale. 10

SPECIAL NOTE.—The handling and loading charges on compressed cotton, when received already compressed at the compresses, will be billed to the original owner on issuance of warehouse receipt.

## SPECIAL SPECIFIC CHARGES.

At south Memphis plant, trolley service, per bale 12½ cents.

NOTE.—This specific charge applies only to cotton as enumerated on page 5 under the heading of ship-marked cotton.

NOTE.—When cotton is ordered arranged, when sold to another buyer for the purpose of sampling, marking, remarking, classing, tagging, or for any purpose whatever, and the date has been mutually agreed upon by the party ordering the service and the Memphis terminal corporation, 48 hours after delivery has been completed, will be allowed the seller and receiver to work same.

For first day and each succeeding day, after the expiration of 48 hours, a charge will be made and collected for each day, or fractional part thereof, per bale, 15 cents.

## COMPRESSION CHARGES.

Cents.

Compressing (per hundredweight) ..... 10  
 Recompressing, per bale..... 50  
 Rebanding (compressed cotton by hand), per bale..... 20

NOTE.—When bands are broken off for conditioning cotton, or for any other purposes, and it is not practical to reband this cotton by hand, so as to produce the required density demanded by carriers of 22½ pounds per cubic foot, the cotton will be recompressed and charged for at above rate for recompressing. "Extra" bands (when ordered by shipper), each, 5 cents.

NOTE.—When cotton has been compressed with the usual number of bands, and subsequently ordered compressed with extra bands, the charge for recompression in addition to the charge for extra bands, will be made.

Resewing heads, per bale, 3 cents.

NOTE.—All bagging originally received on bales will be applied to each identical bale when compressed.

NOTE.—We will not be responsible for the proper covering of cotton, as is required by the United States law, as the cotton is compressed with the original covering furnished us on it.

NOTE.—All cotton will be distinctly branded, after compression, without extra charge.

## BAGGING CHARGES.

NOTE.—All bagging charges will be billed and collected monthly and will be charged against the original owner of the cotton.

NOTE.—Should cotton change ownership prior to being compressed or when cotton is ordered held flat, and changes ownership prior to being ordered shipped compressed, the warehouse receipts properly indorsed, indicating this change of ownership, should be presented at the compress office at plant, so the records may be changed accordingly, otherwise the cotton will be compressed, patched, and billed according to the instructions of the original owner.

NOTE.—When cotton is compressed and patched according to original owners instruction, and subsequently sold to another shipper who patches his cotton with a greater number of pounds of patching, should this owner order a greater number of pounds of patching placed on this cotton, it necessitates the recompression of the cotton; the charge of recompression will be made, plus the charge for the additional number of pounds of bagging ordered.

Cents.

Patching cotton with bagging when furnished by shipper and patches are cut ready for applying:	
Placed on one side.....	2
Placed on two sides.....	3
(This includes handling and storage of the bagging.)	
Patching cotton with bagging when bagging is furnished by shippers, not cut, ready for applying.....	4
(This includes cutting, handling, and storage of the bagging.)	
Osnaburg strips, applying at time of compressing, each bale.....	2
Sewing, Osnaburg strips on compressed cotton, each bale.....	5

Charges for furnishing and applying "Secondhand bagging":	Cents.
2 pounds average placed upon each bale.....	9
3 pounds average placed upon each bale.....	12
4 pounds average placed upon each bale.....	16
5 pounds average placed upon each bale.....	19
Charges for furnishing and applying "New bagging":	
2 pounds average placed upon each bale.....	16
2½ pounds average placed upon each bale.....	18
3 pounds average placed upon each bale.....	20
3½ pounds average placed upon each bale.....	22
4 pounds average placed upon each bale.....	24
5 pounds average placed upon each bale.....	30

NOTE.—As all export cotton marked on the original covering or mesh bagging patches will be classed by the maritime inspection bureau "Covering insufficient to retain marks," the Memphis Terminal Corporation is prepared to furnish a marking patch of best quality to be placed on the bale at time of compression, which is being accepted by maritime bureau at all ports.

Charges for furnishing and applying this patch, each bale, 5 cents.

## EXTRA CHARGES.

(When ordered executed.)

Segregation charge for picking out cotton by specific numbers, per bale, 10 cents.

NOTE.—This charge is intended to apply to cases where the compress is called upon to take from solid marks, specific bales, either for assorting, weighing, sampling, loading, etc.

Branding, one time, per bale, 1 cent.

NOTE.—This charge is based on the use of one brand. If the compress is ordered to mark cotton with a number of marks on each bale, that necessitates the use of more than one brand, an additional charge for each brand will be made, each bale, 1 cent.

## CHANGING MARKS.

NOTE.—Buyers desiring to change marks on cotton that is on storage and in our custody, will be obliged to:

First. Surrender the original receipt for cancellation.

Second. Order the delivery of cotton.

Third. The press will then regularly deliver this cotton to them to be handled by them as they choose.

Fourth. Under no circumstances will others than employees of the Memphis Terminal Corporation be allowed to handle or disturb cotton in their custody, and for which the Memphis Terminal Corporation is responsible.

Charge for this delivery, per bale, 5 cents.

## REFERENCE TO MARKING COTTON.

Marking cotton by tag numbers:	Cents.
Segregation, per bale.....	10
Marking, per bale.....	1

NOTE.—When a solid mark is ordered split into two marks and but one list of tag numbers given to specify the segregation, and the press is ordered to

mark the remaining tag numbers into a certain mark, the segregation charge will apply to the entire number of bales of the original mark.

Repairing water-packed and gin-fall bales per bale.....	\$1.25
Picking and repairing damaged bales, owner to receive pickings, per pound.....	.02½
Maximum amount to be charged for picking, per bale.....	1.25

#### References.

#### REFERENCES TO WEIGHING AND SAMPLING.

When cotton is ordered weighed or sampled by the press, the following services will become necessary and will be charged for accordingly:

	Cents.
Arranging cotton for weighing or sampling by specific tag numbers, per bale.....	10
Arranging cotton for weighing or sampling (solid marks), per bale.....	5
Weighing cotton, per bale.....	5
Sampling cotton, per bale.....	5

Reference to tagging cotton:

Placing tags on outbound cotton while loading and placing mark on each tag (tags furnished by shipper), per bale, 2 cents.

Reference to loading by tags:

Loading and checking by shippers. Tag numbers solid marks.

List of tag numbers furnished by shipper, per bale, 5 cents.

NOTE.—On all negotiable receipts will be noted the condition of cotton when received by ourselves.

NOTE.—No negotiable receipts will be issued unless the actual cotton as represented on its face is in our possession or in our custody.

NOTE.—All telephone orders to be confirmed in writing within 24 hours.

NOTE.—All other actual labor performed for the benefit of buyers or sellers, when ordered by them, although not enumerated herein, shall be charged for and collected from them.

Cotton brokers who represent cotton buyers who are not members of the Memphis Cotton Exchange will be held responsible for all bills for services rendered for account of their clients.

Mr. JACOWAY. I would like for you to answer just one question, and then put that in the record. How much do you think it would be per bale?

Mr. TURNER. I would have to answer that with some little argument.

Mr. JACOWAY. Just approximately. I am asking for an average.

Mr. TURNER. Now, let us treat that subject from the standpoint of a cotton grower. What is the charge upon the bale of cotton?

The CHAIRMAN. That is what we are driving at.

Mr. TURNER. Now, a grower can hold a bale of cotton in our warehouse for one month, according to that tariff, he paying the insurance on the basis of which I told you, for 30 cents per bale. For the next month or a fractional part thereof he will pay 20 cents a bale. For the next month or a fractional part thereof he will pay 15 cents a bale. The aggregate is 65 cents. That holds that bale for the rest of the season, which includes the 31st day of August.

Mr. JACOWAY. What would the losses be in sampling?

Mr. TURNER. The loss in sampling should not be over a pound.

Mr. JACOWAY. Will it not sometimes reach as high as 5 or 6 or 7 pounds?

Mr. TURNER. That is a question for you gentlemen to determine. I do not think it ought to. In ordinary business, in legitimate transactions, that ought not to exceed a pound.

Mr. JACOWAY. That is, for a year?

Mr. TURNER. For a year.

Now, there is the question of loss in weight. The question of loss in weight is predicated entirely upon the climatic and atmospheric conditions. A bale of cotton as it is produced is like—if you will permit it for the sake of explanation—a woven lamp wick. It is made of cotton, and it has all the propensities of capillary attraction. It sucks in moisture from the atmosphere, dries out in the sun, and varies under atmospheric conditions.

Then there is the question of the evaporation of the natural oil that is contained in the cotton fiber. The evaporation of natural oils in a bale of cotton should reach in one year, under perfectly dry conditions, not subjected to any extraordinary influences—I am going to guess at this—about 12 pounds. How about that, Mr. Watson?

Mr. WATSON. Not quite so much.

Mr. CUTLER. From 6 to 8 pounds.

Mr. TURNER. That same bale of cotton in Galveston, Tex., would gain about 9 pounds, and the same bale of cotton somewhere else would gain a different amount. It all depends upon atmospheric conditions. I need not go further on that, because it appears to be so palpable.

The CHAIRMAN: In other words, the loss in weight would vary with the climatic conditions?

Mr. TURNER. Yes.

The CHAIRMAN. Mr. Turner, assume that in the present emergency the South would have to carry 3,000,000 bales of cotton over until the next season. Are you familiar enough with warehousing facilities in the South to state whether or not we have sufficient facilities to carry that amount of cotton?

Mr. TURNER. Yes, sir. We have not.

The CHAIRMAN. In other words, the loss in weight would vary with climatic conditions?

Mr. TURNER. And honestly.

The CHAIRMAN. Why, of course. Mr. Turner, assume that in the present emergency the South will have to carry 3,000,000 bales of cotton there into the next season. Are you familiar enough with warehousing facilities in the South to state whether there are sufficient facilities to do that?

Mr. TURNER. We have not.

The CHAIRMAN. You have not?

Mr. TURNER. Now, I wanted to touch on that particularly. Now, if you care to have my views on that matter—

The CHAIRMAN. We would be glad to have them.

Mr. TURNER. As borne out by experience, the essentials to the preservation of the cotton bale are keeping that bale dry. The only essentials to prevent that bale from being practically destroyed are these: It is necessary to keep two properties away from it—moisture or moisture in the form of rain or snow. Now, if there are not enough warehouses anywhere, that becomes difficult. We have the largest facilities, and without any distressed condition—I want to say that it is not in advocacy of these warehouses that I appear, for my business will be benefited in no way, because I will be crowded and unable to take care of the ordinary distressed cotton. But to meet the distressed condition quickly and with system and practically, there is one other great essential, namely, that the people

who handle the practical end of this proposition must be made to keep on their feet and not get rattled, because if there is any one moment in the world that rattles a person it is this cyclonic movement of cotton coming toward them, and they want a calm, well-balanced proposition to handle it along correct lines; and this is one of the correct lines I am here to advocate: Let the cotton be concentrated at certain points divided geographically according to the production in its immediate vicinity, and this point shall be supplied by the greater number of railroad features that are going to take this cotton away and bring it to these points.

Where the warehousing of the cotton is on the lines of production, this cotton shall be unloaded on elevated pieces of wood that are at least 1 foot from the ground—18 inches are preferable—and piled into two piles each, with their heads abutting, because the outside heads must show the mark or identification. In other words—discussing bales, I thought I would bring one with me—the two piles would abut in this manner [indicating] and all the marks must appear for identification. Let this be prepared 4, 5, or 6 feet high, as the environment might make it practicable, and have a covering. That is the point we want to reach. Use the tar paper that lasts 11 to 12 years. That can be applied. I speak knowingly, because I handled 30,000 bales last year without damage. Instead of the little shingles put in there, you have to shingle these two roofs over these piles in storage and cover with the tar paper, whose durability would be a year at least. That would be a rain or snow shed, and it would become necessary in a driving rain to bring your uprights down from the top of the pile, and build a temporary warehouse. It is astonishing how fast you can do it, gentlemen. Now, that would shelter the cotton, and is a simple matter.

The CHAIRMAN. That is very cheap, too?

Mr. TURNER. Very, very cheap, provided that under these conditions—and I hope there are no labor men here—and it is a marvel that all labor men do not get together and hoist private labor, because there is an immense amount required for this proposition. It is a very quick, practical method, and I want to say to you, gentlemen, that the salvation of that movement of cotton entirely depends on the instantaneous relief of the railroads. They must be considered. This immense volume of cotton coming pouring in and pouring in is demoralizing even under ordinary conditions, gentlemen. You gentlemen know, unless you have not had experience, how demoralized everybody becomes. The railroads are full and their cars are packed, and they must be given relief for three days of congestion; and by this method and by having these cars arranged systematically, the cotton can be housed, receiving all the care that could be given a bale for its preservation.

Now you have need to reckon with another factor, gentlemen, with this, that is most important—a very important factor—that to carry these immense values you must have insurance, and to carry such immense values of insurance you must segregate your values. In other words, the values under one set of policies must be not too great; that is, the charges for the conveyance of this very hazardous article congested in such a market, so that the insurance man can not afford to meet it, and if properly segregated in values commensurate with their ability an association in this emergency of the old-line

companies of America can be reached in 10 days that can stipulate, after exacting the conditions under which it should be segregated, gentlemen, a per bale basis of insurance against this cotton.

Another factor, and the last that I will put forward without being interrogated, is this: That the charges commensurate with this last method of handling cotton will be very much more in excess of this tariff that I have given you of handling the cotton in my warehouse or organized warehouses. For example, new organizations have to be made; railroad switches will have to be built into those portions in the course of time. It can be done in a year or two. And water works and pipes will have to be brought there from a fire standpoint, and labor is involved; and this will all tax that cotton to an extraordinary extent, but my idea of arriving at a price for this unfortunate condition to prevent any inroads of ambitious people to make something out of it out of the ordinary, due to disturbed conditions, would be for the banks and the Government, if possible, to insist upon the audit of actual expenses and grant a legitimate and proper profit for those who handle the cotton in that manner. Let them submit and if their books are not correct they are not fit to handle the commodity, and if they are the Government—the Department of Agriculture—would say that their price—their profit on the proposition—would be so much per bale over and above actual expenses, because I am quite afraid that possibly there might be factors come in here that would take advantage of the unfortunate condition. I do not say that they would, but that is simply a thought that passes through my mind.

Now, gentlemen, I think I have taken your time too much already.

Mr. GOODWIN. Suppose on account of the abnormal conditions now it should be attempted to carry over three or four million bales of cotton for next year, financed and warehoused, and the farmer should be advanced \$40 a bale on his cotton, for example, how much would it cost him to carry a bale from one season to the next season, considering interest, insurance, storage, warehousing, and drayage—I suppose those elements would about consume all of the expense?

Mr. TURNER. The drayage factor is eliminated in Memphis entirely.

Mr. GOODWIN. Just put it as overhead charges, Mr. Turner.

Mr. TURNER. Well, overhead charges.

Mr. LEVER. Repeat them, please, and let me get that.

Mr. TURNER. I said interest—

Mr. LEVER (interrupting). Interest is 6 per cent on the value?

Mr. GOODWIN. Six per cent interest, insurance—

Mr. LEVER. What is the insurance that you calculated on the basis—what basis, \$50 a bale?

Mr. GOODWIN. I suppose \$50 a bale.

Mr. TURNER. Ten cents a pound.

Mr. LEVER. What would that be?

Mr. GOODWIN. I mean the average warehouse—not yours, which is superior.

Mr. TURNER. The average is \$1.50. The average would be 2 per cent. How are they in your section?

Mr. GOODWIN. I am from a State adjoining yours—Arkansas.

Mr. TURNER. Then you know more about the 2 per cent; I expect  $2\frac{1}{2}$  per cent would be a better per cent for calculation.

Mr. LOVE. Are they established warehouses?

Mr. GOODWIN. Yes; we have no warehouse—

Mr. TURNER. Just the ordinary warehouses.

Mr. GOODWIN. We have no warehouse as pretensions as yours, Mr. Turner.

Mr. LOVE. The price would \$1 a bale?

Mr. TURNER. A dollar a bale.

Mr. GOODWIN. For 12 months?

Mr. TURNER. For 12 months.

Mr. GOODWIN. Interest would be \$3 a bale, then, would it, at 6 per cent, \$50?

Mr. TURNER. Three dollars a bale. Now, the storage proposition in our warehouse would be 65 cents, but I told you before that is at the warehouse, but as I told you in that outside proposition most all this cotton would be stored if I handle it; that is the way I would handle it. I would be obliged to eliminate drayage entirely. We have eliminated that in Memphis.

Mr. GOODWIN. I know you have in Memphis, but you must haul that cotton from the warehouse to the depot for loading purposes.

Mr. TURNER. As far as I am concerned, I can only figure from my personal ideas. I run a railroad in there. I do not know what that would be.

Mr. GOODWIN. As a general proposition, they construct these near a switch?

Mr. TURNER. Yes.

Mr. GOODWIN. Then, it would be between \$4 and \$5 a bale for the carrying charge. I would not be at all surprised; it would be \$5 for one year. But the second year, you must remember—I return to the subject—there should be in this emergency no excessive charges assessed against cotton. We should all be big enough to go to the rescue and just do everything we can in the world to meet this proposition. That is the way I feel about it.

Mr. LEVER. And then, following that, there must be a campaign of education through the cotton-growing States to decrease the acreage for the following year.

Mr. TURNER. If not done, it would be suicidal, and the southern people could not appeal to their country in being assessed if they turned a plowshare over for the succeeding year after the war is over. I think the South would take that into consideration.

(Thereupon, at 12 o'clock noon, the committee took a recess until Wednesday, August 12, 1914, at 10.30 a. m.)

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COMMITTEE ON AGRICULTURE,  
HOUSE OF REPRESENTATIVES,  
*Washington, D. C., August 12, 1914.*

The committee assembled at 10.30 o'clock a. m., Hon. Asbury F. Lever (chairman) presiding.

Present: Messrs. Moss, Reilly, Anderson, Haugen, McLaughlin, Howell, and Helgesen.



Present also: Hon. Finis J. Garrett and Hon. Kenneth D. McKellar, of Tennessee.

The CHAIRMAN. We are ready to hear your next witness, Mr. Watson.

Mr. WATSON. I will introduce Mr. Love, of Memphis, Tenn., representing the producer and the cotton factor.

The CHAIRMAN. Please give for the record your name, residence, and business, Col. Love.

**STATEMENT OF MR. W. E. LOVE, VICE PRESIDENT MEMPHIS COTTON EXCHANGE, MEMPHIS, TENN.**

Mr. LOVE. My name is W. E. Love; my address is Memphis, Tenn. I am vice president of the Memphis Cotton Exchange and a member of the firm of Wynne, Love & Co., cotton factors.

The CHAIRMAN. Mr. Love, we will be glad to have you speak, in your own way, on the situation that confronts the cotton industry.

Mr. LOVE. I was appointed one of a committee of three to come here to see if we could not get this committee to recommend to Congress some way by which the South could get money enough to handle the new cotton crop. With the war in Europe, we think there will be between five and six million bales of cotton that we will not be able to take care of; and it is impossible for the South to finance the crop unless we get assistance from the Government in some way.

The South has made liberal advances to produce it, and it is now going to take a good deal of money to gather it, gin it, and get it ready for market; and if we can not realize on the cotton, because we can not get it to market, we are in a deplorable condition.

I understand that the market now in Liverpool is on a basis of about 13½ cents of our money, while in Houston and Galveston, Tex., the only two places where they are getting in any new cotton, it is on a basis of 9 cents. The expense of shipping the cotton from there to Liverpool is about 1 cent a pound, or about \$5 a bale. So the depreciation in the value of cotton amounts to about \$20 per bale, or about \$300,000,000 on the prospective crop of this year, which is not a large one; we have prospective crop of 13,500,000 bales.

Two years ago we made a crop of nearly 16,500,000 bales, and at no time did the market in New York go under 9½ cents; it was a good deal higher than that during the year on a 16,500,000 bale crop.

The consumption of cotton in the United States will take only about three-fifths of the crop, and if we do not get to export this cotton, or make some arrangement by which we can get rid of it and get the money on it, I do not know what we are going to do. It may go down to 5 cents; it may go down to 4 cents; or we may not be able to sell it at all.

This cotton has cost us 9 cents a pound to produce, or about \$45 a bale. We have got to get about \$45 a bale in order to get our money back—the first cost. Under ordinary conditions, we could get 13½ cents to 15 cents a pound for this crop. But with no demand for our heavy receipts in November and December, there is no telling where it will go, unless we get assistance.

The stock of cotton now on hand, some 3,000,000 or 3,500,000 bales—only a small proportion of that is good merchantable cotton.

Mr. McLAUGHLIN. Has that cotton been held over from last year?

Mr. LOVE. Yes; that cotton was held over from last year.

Mr. McLAUGHLIN. That does not include what has been received at Houston and Galveston, Tex.?

Mr. LOVE. No; what has been received at Houston and Galveston amounts to but a small amount, and it is from this new crop. Our seasons runs from the 1st of September to the 31st of August; that is what we speak of as a year. We are not through with the present year yet.

Now, this last season the grade of the cotton has been lower than I have ever known it to be, and I have been in the cotton business in Memphis for 25 years. Our Memphis receipts generally run from 65 per cent to 75 per cent of middling white cotton and better in grade. This year I do not think the receipts amount to more than 5 per cent of those grades. It has been remarkably low in grade and it has been almost impossible to get a line on pure white cotton at any time, even early in the season; the weather was very bad and rains came on, and it was stained, blue, and dusty, and the spinners would be only too glad to pay us a nice premium for the new crop for a while if we could only have competition. If we could ship it abroad, the spinners would realize that they could not get this crop for nothing.

Mr. McLAUGHLIN. Does the new crop promise to be of better quality than that of last year?

Mr. LOVE. Yes—well, we can not tell until we get it; the weather may be ruinous to it; if rain sets in after we start to gather it, it will be a bad crop; we can not tell about that until the cotton is in the gin.

Mr. McLAUGHLIN. Do you think it promises better than last year's crop?

Mr. LOVE. So far it is all right. I know the grade of the cotton is all right so far, because it is still in the boll; it is not open yet, and the rain we have had has not discolored it, because it is still in the boll, and it is not affected by the rain. But this will not be a big crop. We have had an unusual quantity of rain in Texas and Oklahoma early in the season, as well as in some other places, and it has made the crop backward in a great many sections.

I took a trip to Corpus Christi, Tex., some months ago, and a good deal of the crop in that section was then coming out of the ground when it ought to have been 10 or 12 inches high.

Take our section around Memphis, we had 90 days' drought and we have had a very backward season. In the delta section we have had more rain. So altogether this crop is a short one, and we were expecting that there would be a good demand for it and that we would get good prices and sell it rapidly.

Mr. REILLY. What would you call a good price?

Mr. LOVE. A good price would be about 13½ to 15 cents. The demand would justify a price just now of 14 cents for a good middling cotton quotation in our market, but we have no market now; but on account of the scarcity of good cotton from this season the spinners have no good cotton now, and they are always anxious to get good grades to start the season on, and they would be willing to pay good prices for good cotton.

Mr. HELGESEN. Where is the hold-over cotton?

Mr. LOVE. Some of it is in Europe; it is generally in the northern market, and the spinners have some of it. There is about 3,000,000 bales on hand now.

The CHAIRMAN. That, however, is not an unusual circumstance, is it, Col. Love?

Mr. LOVE. No, sir. Our season is not out yet; and it will be reduced to about 2,000,000 bales—

The CHAIRMAN (interposing). Which is normal?

Mr. LOVE. Yes; that is normal. We carried over last season about 2,500,000 bales. But the cotton carried over last season was better cotton than this. We have sold some cotton this season as low as 7 cents, and some of it we can not sell at all. We have a large stock on hand now in Memphis; about 16,000 bales.

Mr. MCKELLAR. Will you tell the committee the remedy that the people down in your section suggest for the present situation?

Mr. LOVE. If we could get \$40 a bale—

Mr. HELGESEN (interposing). Before we go into that, I would like to ask this question: When you said that 15 cents was a fair price, did you mean that that is what the farmer gets, or is that what the spinner pays for the cotton?

Mr. LOVE. Well, that depends on the section of the country. You ask me what the farmer should get. The farmer should get about 1 cent a pound, or from  $\frac{1}{2}$  cent to 1 cent a pound, depending on the location, below the quotations in New York. That would be about a fair estimate of what he would get on middling upland cotton.

Now, you understand that cotton varies considerably. We have the grades all right; but suppose we would have a middling upland. Now, that upland would run from a staple of three-quarters of an inch to 1 inch; it would be called upland, and it would be called middling. Then we have some cotton that would be a little shorter than that. Only a year ago a man in Georgia got up a cotton that would half itself; that is, 1,000 pounds of seed would make a 500-bale of cotton. While that seems very strange, the fact is that the staple of that cotton is only  $\frac{1}{2}$ -inch long, about as long as "linters;" after the cotton has been ginned what is left is called "linters." Now, that cotton is exceedingly short. That would be called middling, however. So the value of that cotton depends on the length of staple and coloring, as well as grade.

Mr. HELGESEN. In speaking of the first cost of cotton you spoke of it as \$45 a bale, or 9 cents a pound. Is that the average cost to the farmer to raise it?

Mr. LOVE. Yes; the average cost of this crop, I think, would be about \$45 a bale through our section. Of course, I can only speak of the Memphis section as to cost. Now, the cotton factors—we are not buyers of cotton; my firm are cotton factors; we sell cotton for the farmers and merchants; we sell it on commission. We advance money to them in the spring, and they ship us cotton in the fall, and we send them the money, less commissions and the amounts advanced.

Now, our firm so far has not done as much advancing this year as usual, and we have done most of it on our own capital. I went to a bank in Memphis the other day which usually gives us a line of

credit of from \$100,000 to \$125,000—anywhere from \$50,000 to \$125,000. I said, "Well, we have gone thus far now without calling on you for anything. We are doing business with two banks—you and another bank. We have got \$10,000 from the other bank. How much money can you let us have now toward financing this cotton crop? From the present indications we do not think it is going to move rapidly; it will accumulate on hand."

He said, "Do you want any money to-day?" I replied, "No; we do not want any money to-day, but we will in a few days."

"Well," he said, "I can tell you to-day that you can get \$10,000 to-day; I can not tell you what you can get tomorrow or the next day; I can only tell you what you can get from day to day."

You can readily see that our firm would be handicapped by that condition in carrying on business. We can not afford to advance \$25 a bale, or any amount, on cotton unless we know that we are going to have enough money to carry it through, to keep the market from continually going down on us.

Mr. McLAUGHLIN. Was the banker's answer to you based on the new currency law?

Mr. LOVE. No, sir.

Mr. McLAUGHLIN. Or was it on account of the condition of the money market or their opinion as to the cotton market?

Mr. LOVE. It was due partly to the stringency of the money market and their knowing that there would be such a demand on them for money; they feared there would be a run on the bank. That firm has \$500,000 capital and \$500,000 surplus, and they have in their vaults \$1,800,000 in money. They are afraid to put it out, but they would be glad to put out \$1,000,000 immediately if they only knew that the conditions would be all right. But with the conditions which exist there now they will hold on to their money; they would rather lose the interest on the money than take the chance of being "busted" in a short time.

Mr. McLAUGHLIN. Well, there is no law that would prevent them from letting out their money in that way, is there?

Mr. LOVE. No law.

Mr. McLAUGHLIN. And no law that would permit or justify them in letting it out?

Mr. LOVE. If the Government would advance money to the South on warehouse receipts for cotton to the farmer or the merchant, or anybody, whoever it might be, taking his cotton on a basis of \$40 a bale of 500 pounds of middling white cotton, then as soon as that was done every man in the South and every man in the United States would have confidence in cotton. The Government would never have to finance the whole cotton crop, because others would be willing then to put the money out; they would have no fear of the market going down as low as 8 cents a pound.

But as it is now we have an enormous demand for money in November and December. We always had trouble at that time until two or three years ago, when we got this new warehouse system into operation of issuing warehouse receipts on single bales in Memphis.

But with this new warehouse system we have been getting money from St. Louis, New York, Chicago, and all over the country, and even out West they loan money on those warehouse receipts, and that has made it very much easier.

Our firm has never been East, or but very little, to get money. We get money at home. We have to pay more interest for it, no doubt, but we feel that when such times as these come we are much better protected getting the money at home than if we got it from New York, for example.

Some of our competitors, however, got their money from the East this year, because the rate was very much lower than that at Memphis, and I understand they have already been notified by the New York banks that when those notes are due they have got to have their money; no matter what the collateral is, they have got to have their money.

Where are they going to get it? If we can not sell more to the United States when Europe is at peace than 7,000,000 or 8,000,000 bales of our cotton, what are we going to do with the other 6,000,000 bales when Europe is at war?

Mr. HELGESEN. What would you suggest in the way if legislation to make it easier and safer for the banks to advance money on those warehouse receipts?

Mr. LOVE. That would be of help in some fields. But the average banker is scary; when he gets too much paper on one kind of commodity, he gets uneasy; he feels this way, "Well this thing might go lower"; and the limit on the national banks now has been raised so as to make it unlimited on occasions of emergency, and they will say that "To use ordinary care we could not lend your firm more than \$50,000, but now we will double that this year; this is a case of emergency." We would get up to \$100,000. Now, it looks as if everything was going pretty well. But when they get this \$100,000 they can not sell this cotton. The spinners know the advantage they have of us; they know that we can not send the cotton abroad. Then they say, "We have got as much loaned to you as we can loan, and we can not loan any more." What would be the result? We can not advance our customers any more money, and they will have to put this cotton on the market and sell it, and whenever you put cotton on the market and sell it in large blocks you are going to break the bankers all over the country, no matter where the location is.

Mr. MOSS. Col. Love, I understood Mr. Turner yesterday to take the position before this committee that if the banking law was administered so as to make it possible, the banks of the South ought to take it upon themselves to carry the first cost of the cotton, and the farmers themselves ought to carry the profit. Now, do I understand you to say that the Government ought to carry part of this first cost of the cotton?

Mr. LOVE. No, sir; if the Government would give us relief on the first five or six million bales—

Mr. McLAUGHLIN (interposing). How, Col. Love?

Mr. LOVE. By advancing \$40 a bale on the warehouse receipts.

Mr. McLAUGHLIN. Do you mean by a direct transaction between the Treasury of the United States and the owners of the cotton?

Mr. LOVE. Yes, sir.

Mr. REILLY. Do you mean for the Government to establish a price?

Mr. LOVE. No; that would not be a price.

Mr. REILLY. Well, to establish a price upon it, you would have the Government loan \$40 a bale?

Mr. LOVE. Yes, sir; and whenever that is done it will save the situation. Our southern people are bulls on cotton. They always think it is going higher, the same as the northern people think that wheat is always going higher.

I was in St. Louis in the grain business for three years; for three years I handled wheat in the winter and cotton in the fall. I never struck a man who handled wheat that did not think that the price was too low, no matter what the price was. We had it at \$1.75 a bushel one month, and it dropped down to \$1.25 another month; and all of our customers wanted to hold it for another rise; and they said to us, "If we were situated like you southerners are on cotton, we could afford to sell it cheaper." And we would get in a southern customer on cotton, and he would say, "If we could make as much on our cotton as you fellows make on your wheat and on your meat, we would be all right."

So there is no trouble in getting the average southern cotton man to hold cotton, if he only knows where he is going to get enough money to get through on. The difficulty with our southerners is to get them to sell; no matter what the price is, they want to hold their cotton. But if they can not get money enough to hold it, they get frightened, and they think the lower it goes the lower it will go in the future, and if the market this year is going down to about 5 cents they would be demoralized, and would not keep their cotton, but would get rid of it at any price.

Mr. HELGESEN. Take the last few years, and tell us how low cotton has gone.

Mr. LOVE. For what period?

Mr. HELGESEN. Anywhere within the last 10 years.

Mr. LOVE. For a 10-year period the lowest was about 8 or 9 cents; it went in New York down to about  $9\frac{1}{2}$  cents. I have our business card here, which gives the lowest and highest prices of cotton for 110 years; I will refer to that; it is authentic, I think.

In 1904—that is, 10 years back—the lowest on middling cotton in New York was  $9\frac{1}{2}$  cents; that was the lowest at any time during the year. The highest in that year was  $17\frac{1}{2}$  cents. That year the crop was 10,000,000 bales.

Take 1905, the lowest in New York, on a crop of 13,500,000 bales, which was the largest crop ever made in the South up to that time, was 6.85; the highest in New York that year was 11.50.

Mr. HELGESEN. The lowest was 6.85?

Mr. LOVE. Yes; and the highest that year was 11.50.

In 1906 the lowest was 9.80 and the highest was 12.60.

In 1907 we made another big crop, of 13,500,000 bales, which at that time was looked upon as a very big crop. For that year the lowest price was 9.60 and the highest was 13.55.

In 1908 the lowest was 9.50 and the highest was 13.55.

In 1909 the lowest was 9 cents and the highest was 13.15.

In 1910 the lowest was 12.40 and the highest was 20 cents.

Now, this is all based on middling upland; no fancy prices come in these figures at all.

In 1911 the lowest price was 11.60 and the highest was 16.15.

In 1912 we had the largest crop that the South had ever made—16,138,000 bales—and no one in the South had ever heard of such a crop, and nobody ever thought the South could make such a crop,

and they got demoralized on heavy receipts, and down went the price until it got down to 9.20, the lowest for that year. That came along in November or December. The highest price was 13.40. The stuff just dwindled away; they got rid of it.

In 1913 the lowest price was 10.28 and the highest was 13.06.

Now, this year is not completed yet, but I do not think cotton has been down lower than 10 cents or higher than 11½ cents in New York.

Mr. HELGESEN. Well, that would seem to indicate that your request that the Government advance money at 8 cents a pound ought to be a safe proposition?

Mr. LOVE. There is no question about that. It is perfectly safe.

Mr. HELGESEN. Is there any special reason for the Government advancing this money on cotton?

Mr. LOVE. I did not understand that.

Mr. HELGESEN. Is there any more reason why the Government should advance money on cotton-warehouse receipts than there is why it should be advanced on warehouse receipts for grain?

Mr. LOVE. My experience as to grain is that you are not as safe in advancing money on grain as you are on cotton. Cotton can be better cared for. If you put cotton up in good shape, there is no reason why you should not keep it 25 or 30 years without damage. We have kept cotton in our warehouse 5 years; and the only damage to it was that the bagging got a little bad and looked rough, but the cotton was absolutely sound and in good condition.

The man who gave us that cotton—we had 700 bales for him, and he ordered us to sell about 650 bales—he had 50 bales of staple cotton; and my recollection is that he put a price on it of 10 cents a pound; he had to have that price, and he would not sell it for any less; and we finally got the 10 cents for it and sold it; and about two months after we sold it it went up to 14 cents. [Laughter.]

The CHAIRMAN. Col. Love, I have a telegram here from a gentleman in Dublin, Tex., and I will ask you to read it and see what you think of the plan suggested in it.

Mr. HELGESEN. Before you read that I would like to ask this question: You would not calculate on the Government holding even cotton for any great length of time, would you?

Mr. LOVE. I would say that the Government ought to help us until conditions right themselves. As soon as this war in Europe is over, things are going to right themselves. Get rid of cotton; sell it, do not hold it for 15 cents, but sell it at a price where we can get our money back, and give the poor laboring man a decent suit of clothes out of his year's work.

Mr. MOSS. You used the expression "Hold it until conditions right themselves." Do you mean until the prices become normal?

Mr. LOVE. No; I mean until foreign countries can take our crop, so we can get a reasonable price. I would say that if this crop brought 12 cents a pound we ought to sell it—or 11½ cents—to give the farmer net about 11 cents for his year's crop.

Mr. MOSS. Would you be willing to advocate that the National Government should advance money on grain at the same time that it advances money on cotton? Would you be willing to let the two requests stand side by side?

Mr. LOVE. Well, if you could make grain as safe to keep as you could cotton; if you could take care of it in the same way, I would.

But grain is already getting a boost. This war in Europe has advanced the price of grain 20 per cent, whereas, on the other hand, it has knocked the price of cotton down about 25 per cent. The two things are just opposite; they go in opposite directions, and these war conditions are going to help the grain men and to help the beef men; because they are going to be able to get more for their product.

On the other hand, it is going to play havoc with the southern planter, because he can not sell cotton at all, and if we do not get some help and conditions go on as they are now we will have to sell cotton at 5 cents a pound in order to get rid of it.

Mr. HELGESEN. The two commodities may go in opposite directions now; but assuming that the conditions were similar, would you see any objections to treating them the same?

Mr. LOVE. No; if the same conditions as to taking care of the two products existed—if grain could be kept as safely as cotton. My understanding of grain is that if you store it in large quantities and it is not exactly right when you put it there, it is liable to great damage; you have got to shift it backward and forward, and so on.

Mr. HELGESEN. There is no trouble about it if the grain is dry.

Mr. LOVE. Not if the grain is dry.

Mr. MOSS. I want to ask you this question: For instance, wheat this year in Indiana sold at 68 cents, at the thrashing machines, which is much below the average price; and at that time it seemed a permanent price. That meant a loss to the farmer growing wheat, just like 9-cent cotton would mean a loss to the farmers in the South.

Now, with wheat 68 cents a bushel in Indiana, do you think that would constitute a claim on the Government for it to advance money on warehouse receipts on grain?

Mr. LOVE. Under what conditions?

Mr. MOSS. Well, the farmer does not care much what the conditions are; the price that he gets for his grain is what he cares about.

Mr. LOVE. But the Government would care. What would cause this grain to go down to 68 cents? If you had outlets over the whole world, and wheat was 68 cents a bushel, that would seem to indicate overproduction; but if you are placed in the position we are now in, in that you were cut off from all foreign trade and your wheat was down to 68 cents, I would say "Yes."

Mr. MOSS. This was the question I wanted to put to you. The question was, Should the Government be willing to advance money on any standard commodity like grain when for any reason the price drops below the cost of production?

Mr. LOVE. Not with our usual trade open. But these are conditions we have no control over, and they are due to the fact that our foreign trade is taken away from us by this European war. If the price of cotton went down to 5 cents a pound and we had the whole trade of Europe, I would say that the Government should not touch the matter at all; it would be a case of overproduction, no doubt. But we do have the trade, if we could only get to it.

Mr. MOSS. Let me ask you this question: If for any reason our export trade in grain was to be cut off on account of this war (as it may be), would you then believe, under those circumstances, that the Government ought to advance money on warehouse receipts on grain?

Mr. LOVE. I do, if you could take care of your grain, if you could provide so as to take care of it and keep it in condition.



Mr. HELGESEN. Well, any condition that arises that brings down the cost of any farm product below the cost of production is one over which the farmer has no control. What difference does it make whether it is war or the weather or anything else?

Mr. LOVE. Well, for instance, if conditions now were like they were a month ago and your grain was down to 68 cents, what would be the advantage in holding that grain? It would be purely a speculation. You would not have any better trade demand for the grain probably in Europe; you have got to have a demand for it all over the world. But if you are cut off from the world and your demand is stopped right there on account of your not being able to get your product shipped abroad, the only thing to do is to hold it until you can turn it loose.

Liverpool would be very glad to pay us 13 cents a pound to-day for cotton. I would not be surprised if the Liverpool market would advance if we could export any cotton to them, and our market would go up also. The conditions are such that they will right themselves as soon as we can get the cotton away.

Now, conditions have been such in the past that we sold middling cotton as low as 4½ cents. What was the cause? It was overproduction. Now, if this war continues and we get no relief the farmer in the South can not raise a big crop next year. The Government is safe in carrying this crop over even for another year, because the South can not raise another crop without assistance; and who is going to put up the money when it is going to cost 10 cents a pound next year for them to raise it? We have no corn, we have no meat; in many sections we are entirely out of it; it is going to cost them 10 cents a pound to raise cotton next year. They can buy it cheaper than they can raise it, and our next year's crop will be lower than that of this year, because we can not get the money to raise the crop.

Mr. HELGESEN. If the Government should furnish transportation facilities so as to open up your crop to foreign countries this year, would not that relieve the situation in the South?

Mr. LOVE. If they take enough of it. But what we need now is help; our country needs that right now. I was talking to a man the other day, and he said that owing to the dry weather he would commence cotton picking next week. He said, "What is the chance of getting money for picking the crop?" I said, "I can let you have \$100 every two or three days." But that would not be enough to pay his expenses for one day. Now we are limited to \$200 a day from our banks. They will pay our checks as long as we have some money in there, but they will not promise to let us have any more than that. We can not afford to strain our credit unless we have got assistance to hold the price of cotton up. If we went ahead and advanced money without knowing we would get sufficient help to carry it through it would break every firm in the South. We have got to have concerted action to do that.

Last Monday a week ago, when this trouble first came on, one of our National Banks in Memphis paid out \$40,000 in cash to a lot of Germans, or Russians and other foreigners, they drew it out in lumps of \$2,000, \$3,000 or \$4,000, and I do not suppose they had use for more than \$10 a piece. What are they going to do with it? They

are going to bury it. And every safe deposit company in the year 1907 rented every box that they had; the people took out their money and stuck it in those boxes and locked it up.

Now, the Comptroller of the Currency, Mr. Williams, has raised a kick; I understand he has sent the clearing house in Memphis a very sharp letter jacking them up about their refusing to pay out money. We have got only two or three national banks in Memphis, and we have six or eight State banks. The State banks can do as they please with the money they have; they can pay it out or hold it. But, as to the national banks, suppose the Comptroller says "You must pay all those checks as they are brought there," what would be the result? In 24 hours the banks would close up. A great deal of that money would go in safe deposit vaults, under stumps, in hollow beds and every other place where the people who were afraid of the banks would put it.

Mr. HELGESEN. Are the banks not paying out any money that is on deposit there now?

Mr. LOVE. No, sir; we can not do it and keep the banks going. It is a hardship on us; we suffer about as much as anybody else. We have got 1,200 or 1,500 customers on our books, and it is a terrible condition of affairs; and if we do not get money to enable them to have the cotton picked, what are they going to do? The cotton can not stay there. If they do not pick the cotton in September, October, November, or December, it will be ruined; it will depreciate \$25 a bale or more, on account of loss of grade; and we must have money; we have got to get it somewhere, or the South is ruined. Those are the facts; they are not guess work.

Mr. REILLY. If this new Federal reserve law should be amended so as to permit your banks to loan money with cotton warehouse receipts as collateral, would not that help you?

Mr. LOVE. That would help us immediately; yes, sir. That would carry us along until November or December, when our receipts get very heavy. But as I said before, every banker wants to be careful. He does not want to fail; he wants to be in solid condition so as to meet any runs on him.

Now, in November and December our receipts get very heavy, and there is not much demand for cotton. It is accumulating; we have got to build more warehouses; we have got to take care of it. The bankers then will say, "We have got just as much loaned on cotton as we can take care of. It is a risky business to put out any more; and even if the Government will allow us to have money and put it out on cotton at \$35 a bale, we have got just as much out as we care to have, and we can not go any further."

Then, where are we? We are in a worse position than we are now—or just as bad.

Mr. MOSS. If the Government is willing to let the banks have the money, under the Federal reserve act, and the banks themselves have not the courage—

Mr. LOVE (interposing). I can not understand.

Mr. MOSS. I say, if the Government should be willing, under the operation of the Federal reserve law, to let the banks have the money, on asset currency, and the banks in the South themselves have not the courage to put it out on cotton at 8 cents a pound, do you think the Government ought to have more courage about it than the banks?

Mr. LOVE. Well, the Government realizes that if those banks knew that there was going to be enough money raised to carry this cotton along, whether it was dragged along for a year or not, they would all be perfectly safe; but the trouble comes from one bank fearing another; it is due to the fact of the banks fearing the general conditions of the South that they are not willing to take this responsibility and carry it on through. There is where we fear for the situation.

Mr. McLAUGHLIN. You think there is absolutely no danger of loss, but the banks are timid?

Mr. LOVE. There is absolutely no danger. If you go back for a period of 25 years, you will find, with the exception of two or three years, that cotton has been away above those prices; the trouble generally comes along in November and December, when the receipts are heaviest, and then if conditions such as the present come along we are gone.

You take the spinners. A lot of the buyers have sold cotton ahead. What are they doing? They go around and say, "You fellows watch out; the market is going much lower." What are they talking that way for? They know that we can not raise the prices. They want to drive that cotton down. If cotton was selling at 3 cents a pound, they will say, "Cotton will have to go down lower; we can not handle it at that price." They did that before.

This proposition would be absolutely safe. A man asked me the other day, "What are you going to do with this crop when the next crop comes on, 14,000,000 bales? There will be 20,000,000 bales, with what is left from this year, and you can not get rid of it."

Why, it is absurd to think that a man can get money to raise a crop of cotton next year, with all the uncertainty of raising a crop, and he can not get the money on his crop now; he could not do it. The South has to borrow a great deal of money in order to raise the crop.

The CHAIRMAN. I wish you would read that telegram, Col. Love, and see what you think of the ideas suggested there.

Mr. LOVE (reading):

DUBLIN, TEX., August 11, 1914.

The HOUSE AGRICULTURAL COMMITTEE,

*House of Representatives, Washington, D. C.:*

Suggest that cotton-raising States through their legislatures provide suitable warehouses designated to protect against fire and weather; warehouse apportioned to counties based on number of bales cotton produced; these warehouses to be designated under plans approved by National Government and designated as Government-bonded warehouse; cotton to be graded and weighed by bonded classers and weighers under the supervision of National Government according to the Federal standardization certificates issued by bonded classers and weighers, covered by insurance, to be used in national and State banks, and as collateral to amount of three-fourths of value of cotton at time they are presented as collateral stable; price to be made under present circumstances; rate of interest made by States and inserted in certificate.

NICHOLAS D. SMITH.

That would not help us through. We have no fixed price of cotton now. The New York Cotton Exchange, which is a future market, and the New Orleans Cotton Exchange, which is a future market, generally fix these conditions on prices. The country works toward the values that they put on it. Those exchanges are not open now, and the only figures we would have to go on now would be the prices at which the actual cotton was selling in the market

where they are receiving it; that is, in Houston and Galveston, Tex. I do not know whether they are selling it there or not, but they are offering 9 cents there for middling cotton. Now, you take three-fourths of the value of middling cotton at that price, and it brings it down to a mighty low ebb.

As far as the bonded warehouses are concerned, if the Government gives this relief, they should be under its supervision; they ought to exercise it; they ought to have the men who would look after it.

As far as the grading of cotton is concerned, there is a considerable help to the man, to the Government, or anybody else loaning money on cotton. But that would not give us as much money as we need. We need \$40 a bale now.

The CHAIRMAN. Col. Love, what I wanted to bring out in asking you to read the telegram is, Do you not think that under your own plan it would be necessary, first of all, that the cotton be graded by some person supervised by the Federal Government?

Mr. LOVE. If the Government advanced the money?

The CHAIRMAN. If the Government advanced the money; yes.

Mr. LOVE. I certainly do; yes, sir.

The CHAIRMAN. And, secondly, that this cotton, after being graded, shall be put into a warehouse which is recognized as being a proper warehouse by the Federal Government?

Mr. LOVE. I certainly do; yes, sir.

The CHAIRMAN. Those are the points I wanted to bring out.

Mr. LOVE. I thought you alluded to the amount.

The CHAIRMAN. No.

Mr. LOVE. Now, the grading question—I have heard some gentlemen talk about that here. Every section of the country is different in that respect; we all have different lines of cotton. I am not familiar with South Carolina and Georgia and all those sections on the Atlantic coast; but from the spinners and buyers that we have in Memphis, I understand that their grade of cotton is better grade than ours, but inferior in staples.

Now, if the grades of cotton are fixed, the man who has cotton of three-fourths of an inch staple has cotton which is worth far less than the same grade of cotton in 1 inch or  $1\frac{1}{8}$  inches, or  $1\frac{1}{4}$  or  $1\frac{1}{2}$  inches, yet the cotton would be graded middling, or any other grade it might happen to be.

Now, if that is the case, I do not see how that condition could be met unless the length of each staple is put on, in addition to the grade. Then, if that is the case, it is a difficult matter to get the proper length of cotton when it is just ginned or when it is laid out on the ground, and the moisture is next to the cotton, or, rather, I should have said the cotton is not thoroughly dry.

Now, I will give you one instance which occurred last fall: A man sent us a sample of cotton and asked our opinion of the price. We wrote to him that it was worth 17 cents a pound. The grade was strict middling, and the staple was fully  $1\frac{3}{8}$  inches as we got it—when we got that cotton in.

The man did not wait for our price, but he shipped the cotton right on. When we got that cotton in, and put it on our tables, the cotton was not up to what we expected. The expressman in bringing those samples to us let them get damp, and they pulled better, the

fiber was longer, and it had a better drag to it than it showed after it got dry; and the best we could get on that cotton was 16½ cents; and the result was that the man got angry, and never shipped any more cotton to us.

He said he was offered in the country 18 cents a pound for it, and that it was fully 1½-inch cotton, as he had been told by a buyer.

I asked him did he examine that cotton. He said he went to the gin and cut a hole in the bale, and he cut a sample out there. I asked him, "Was the sample taken down on the edge next to the ground?" He said he did not know, but thought it was next to the ground. And there was where the trouble was; the cotton was moist, and in pulling out it showed up one-eighth of an inch longer than it was; and even when we got it it showed up one-sixteenth of an inch longer than it really was.

Now, it is all right to grade cotton, but when you sample it out a difference of sixteenths makes a vast difference in the value of the cotton. Take middling cotton, say it is worth 10 cents on grade: say that cotton is 1½ inches, or three-eighths of an inch longer than the average of upland cotton, you could get a profit there probably of \$3.50 to \$5 a bale.

Now, as I understand, the Government wants to reduce cotton down to nine grades—to cover this whole question of grades that we have. Such an arrangement would be all right to put on contract cotton. I understand that New York has a system of what is called certificating cotton, whereby they take their samples from the cotton, and that cotton is then laid aside as certificate cotton; but that depends on those contracts, and it varies according to the length of staple that is put on those certificates; and I think that would be an advantage to contract cotton, or to the man who raises cotton and who wants to sell it; but unfortunately for the man who raises the cotton it is a difficult matter to tell what it is. Now, although I have been handling cotton for 40 years, I am not an expert. That sounds singular. And yet I have heard of these men who go to cotton schools and expect to become experts in three months. The way we make experts is, we take a young man who has got tact. You take your daughter and put her to the piano; you can let her study for 40 years and she never will learn how to play; she can play by note, but not without her notes; she could not do it unless she had the tact. They have got to have a tact for it. And the men who can tell about cotton have got to be born to it. They can not be made to it.

You take a young man and start him on the work; he first goes in the cotton room and assists the cotton man; he is pulling that cotton and handling it; and it takes him 6 or 8 or 10 years to get up to where he knows about cotton. I would not give a cent for a man from a cotton school; he is worse than a man who has never seen a bale of cotton; a man with a smattering of knowledge is worse than one with none at all.

I had a man send me cotton last year whose son was in a cotton school. He told us just what that shipment of cotton was. I told our cotton man "You are going to have trouble with that cotton. You must not only examine it on the tables, but put an auger in it."

When he did so he found that this very cotton which was picked out as being worth more, was worth half a cent less than the other. That man had the highest confidence in us; but we lost his business,

although we had given a quarter of a cent more for his cotton than he thought we would get—because we did not agree with his son.

That is the trouble with the average farmer. He is not an expert; and the man who is handling cotton every day, unless he has tact for it, is not an expert; but the value of cotton is hard to get. You can get the grade fairly well, but when you come to the question of staple, that may run from one-half an inch to 2 inches.

In fact, I have seen a staple up to 3 inches. Now, that 3-inch staple was worthless; it was something never heard of before. It came around in a rather singular way: The man who had the cotton did not know what he did have. He was an old friend of my partner; he was sheriff of the county in which my partner had lived. And my partner was complaining about the cotton being handled so badly. And he said, "Cotton as long as this," indicating some cotton we had, "a man ought to be ashamed of himself for picking it wet." The sheriff said, "How long is this?" My partner said, "One and three-quarters inches." The farmer said, "That is nothing, I have got cotton 2½ inches long." My partner did not believe it. The farmer said, "I will show you. I will send you a sample of it."

He sent us a sample, and it was 3 inches long; it had no strength whatever. He got the seed from the Department of Agriculture, and it was raised in the prairies of Arkansas, where they do not raise good cotton. Well, the Associated Press got hold of it; it was just before the World's Fair at Chicago. They wired us down there to know about the seed, and where they could get them; and I suppose we got 1,000 letters on the subject. We got tired of answering them.

I said one day, "I was offered \$10 for 10 of these seed the other day." A man in the office at the time said, "I would give him \$25 for 10 of those seed."

Well, the result was that that man would have been made a millionaire; but he would not sell those seed at all; he kept the cotton three years, and it went back to 1½ inches, and he never got a cent out of it.

That is the way they do. It shows you the ignorance of the farmer.

Take this classification: That would help the man who was selling the cotton without going to some expert to classify it; that would aid him to do it. But we have got something else to stop us right there: How is he going to get that grade? He has got to go to some central place to have it graded. These graders can not go around to every gin; it is too expensive.

Another thing, if he is going to get the staple he has got to give those grades different times to dry out; and I do not believe there is a man living who would buy cotton, either on grade or on staple, unless it was guaranteed. Take our business, we never sell cotton that is guaranteed. A man comes in and says to us, "Where is the strict middling?" We say to him, "Now, you look at that cotton." He goes and satisfies himself; he goes down to the warehouse and sees the cotton; and we take a sample out of that bale of cotton for him.

I heard a man say yesterday that a bale of cotton loses 5 or 6 pounds from the samples taken out. There is no reason why that

should be so. They are not thieves in the cotton business. Any reputable man has no earthly reason for taking out more than 6 or 8 ounces from a bale of cotton. That is all it should lose in that way. Now, the man who made that remark either did so in jest or he lost sight of the fact that there are honest cotton men, the same as there are honest Congressmen, Senators, lawyers, or anybody else.

Now, this cotton will not hold up. The man goes down to the shed; he examines that cotton; he weighs it if he wants to, after our weigher has done so; we weighed that cotton in line. He is not willing to take it from those samples, although he sees it right in the bale. He splits the head of that bale or sticks an augur in there to see that it is all right.

This last year our rejections on account of mixed cotton generally amount to about 1 per cent—this year they averaged about 15 or 20 per cent—to show you how low-grade cotton was mixed all in it, and I do not believe that 6 per cent of the men who shipped the cotton in to us intended to have it mixed; it was unavoidable. But it was there. Now, the man who is going to ship on grades has got to have somebody to guarantee him; we, as factors, could not do it; you must go down and examine that cotton yourself. The samples would do us no good as factors, because we would have those samples drawn at the shed and have him examine those samples and let him determine for himself.

The ginner could not guarantee you the grade. Why? Because a great many of the ginner's load their gins with suction. The farmer carries his wagon of cotton in there and they bring this suction pipe down and it sucks it up. That ginner does not know what that cotton is in the middle of that bed; he does not know whether it is the same all the way through, and probably the farmer does not know that; the farmer thinks it is all right; but he may have good cotton on one edge and low cotton in the middle, and good cotton on the other edge. He gets a sample out of it and he thinks it is all right. The ginner will get out of that bale \$1 or \$1.50 profit.

The man who comes along and classes that cotton could not class it unless he stuck an augur in it; he would have to bore every bale to see if it is all right. Now, that is on grade.

Now, whenever you stick an augur in a bale of cotton you are going to have a loss of 5 or 10 pounds on that bale. The air passes right through those passages and dries the cotton out, and you are going to have a heavy loss on it.

Now, when it comes to the staple of that cotton, I do not believe there is a man who would undertake to buy cotton and sell it on somebody else's classification.

Take the nine Government grades. I asked a buyer a short while ago, who buys about 75,000 bales from the factors all over the country: "How many different types have you?" He said, "Well, we have between 150 and 175." I said, "I did not mean to ask how many different marks you had, but how many different types or variations?"

He said, "I have that many types, and every one of those types has a different value."

How are you going to condense them into nine grades? You can say, "Here is middling, and here is strict middling." There is a

variation. We will put this in as strict middling. We will put that in a strict middling bale."

If you do that the farmer will suffer, because there is a difference in value of about \$2.50 to \$5 a bale between those grades. You have got to put those variations in one grade or the other, and there is such a vast difference between them.

Now, why is there this difference? Up to six years ago there was \$6 a bale difference in value between ordinary cotton and good middling cotton. That covers the ordinary shipments that we get. We have had an idea in our country that cotton was cotton, and we will go ahead and pick it regardless of how we get it, because Smith, Jones, or Brown, who are the buyers, pay the same price for it anyhow, and as a result of that we have had a big accumulation of lower grades and nothing of the higher grades; that is, from strict middling up. The English trade has found that there is a great deal of loss, a great deal more of waste in the lower grades than in the higher grades. It used to be the case that they would not pay you any more for middling and the better grades than for strict low middling. They wanted a sample of a blue, pearly color, and a big leaf in it the size of your thumb nail. They have got out of that idea. They have found that every foreign substance is a loss in spinning. Now they all want the better grades. The result is that there is a vast difference in the price. It is now about \$20 between the price of ordinary and good middling.

One great trouble the farmers have—and I am sorry to say that they do not realize it—is the ginning of cotton. We have got improved systems throughout the country. They have batteries of two, three, four, or six gins, probably eight gins, and they fill those hoppers and they go right ahead with the ginning. Mr. Jones comes along and has a bale of cotton and he will get a straight sample. Mr. Brown comes in and he gets a sample. The hopper never stops. They switch it off from Mr. Jones's cotton to Mr. Brown's cotton, and from Mr. Brown's cotton to Mr. Smith's cotton, and what if Mr. Jones's cotton is of low grade? On the sample side—which is the bottom of the bale, they always sample that—the good cotton will go in that sample, because Mr. Smith, whose cotton went in just before Mr. Jones's, had good cotton. Then Mr. Jones's low-grade cotton comes on top of that. Then there is some low-grade cotton left in, and that will go in on Mr. Brown's sample, and he has probably a good cotton, and so there will be a low sample put on his cotton. Then they mix all the cotton—probably not more than 25 or 30 pounds of one kind to the bale—and probably it is a mixed bale all the way through because the ginner can not stop to run the seed out in every case and get rid of the different cottons, and he is mixing up the cotton.

This year we have had so many rejections that we cut both sides of the bale, bottom and top, to see if we could not remedy the trouble. Such a thing had never been done before since we had been in the business. But still we could not stop it; between the samples and the middle of the bale there would be low cotton. That condition has done the South more harm than anything else—when they pick it and gather it they do not handle it nicely.

I was in a gin house not long ago, and I said, "Look how trashy you are in handling this cotton; it would make a dog howl." He said,



"Mr. Martin will not pay me any more when it is handled nicely. Why should I want to do that when they pay me the same price for it anyhow?"

The CHAIRMAN. Are there any further questions, gentlemen? If not, Col. Love, we are very much obliged to you.

Mr. HAUGEN. You said, Mr. Love, that the grading would work all right in the future contracts, but not between the buyer and seller?

Mr. LOVE. Will you repeat the question?

Mr. HAUGEN. You said that the grading or classing of cotton is all right for the future contracts, but not in your business. Will you explain the difference?

Mr. LOVE. I can see only one thing in which the grading of cotton will help; that is, if the man who raises the cotton is willing to go to the expense of having an expert grade it. That would help him, because they are utterly at sea when they go to sell their cotton. I mean the majority of them. I think 90 per cent of the people in the South would be covered by that.

Now, if the farmer gets that information, that would only apply to the grading of the cotton. It would help him some, of course. If he knew absolutely nothing about the value, the grading would help him some on that. But what if that bale of cotton was middling and  $1\frac{1}{8}$  inches?

Now, suppose he had a neighbor with middling cotton,  $\frac{3}{4}$  inch; it is all middling. Now, for illustration, suppose his neighbor sold his cotton for 10 cents, and this man who had  $1\frac{1}{8}$  inches would get  $10\frac{1}{2}$  cents for his cotton. The neighbor who sold his cotton probably did not have it graded; he got 10 cents.

Now, this man who got  $10\frac{1}{2}$  cents would be pleased, because the man gave him the information.

Now, if that man did not give him the information on the staples—

Mr. HAUGEN (interposing). Is not the staple, and the quality, and the type, and everything else taken into consideration in classing cotton?

Mr. LOVE. Well, as I say, it would be almost impossible to examine cotton—and it is very hard to get your experts on that who would be accurate in giving the different lengths of staple; it is more difficult to get the staple of cotton than it is the grade.

And when you go into those details you complicate matters considerably. Then you are going to have higher-priced men; and a man who is in a place where they do not raise much cotton could not get much benefit; he would have to carry it to a place where they centralize cotton, in order to get the benefit of the classification. You could not get sufficient good men to go all around to those gin houses and give the information.

Now, on future contracts, when you come to New York, if there was a law so that those grades would apply there, and you should have to make a variation in the delivery, that would help.

Now, if a buyer should want to line the cotton, he would not buy this cotton from grades, unless they were guaranteed to him. Who is going to guarantee it? You can not make a man buy cotton. You can tell him the price, but if your terms do not suit him he can refuse to buy.

Mr. HAUGEN. You are familiar with the Lever bill, are you?

Mr. LOVE. Only from what I have heard here; I have been here two days.

Mr. HAUGEN. I understood Mr. Marsh, of New York, to say that the bill would be of no value unless it provided a standardization of value. And I believe you are the first witness who has appeared here who has been against the standardization.

Mr. LOVE. Well, if you will believe it, I do not have any dealings whatever in future contracts; I do not know anything about future contracts.

Mr. HAUGEN. But I understood you to say that, so far as the future contracts were concerned, the standardization would be all right; but that that would not be so in the case of the farmer?

Mr. LOVE. And that is what I meant. I mean in dealing with contracts, it would help there. And it would help the man who was selling the cotton. As I heard a man say the other day, these three, four, or six bale men, who had a mortgage on their crop, it would be of assistance to them or to anybody who could tell about the value of this cotton. There is no question about that.

But I mean that in order to sell it to the spinner at the full market value you must give those men an opportunity to examine that cotton to see what they are buying and know what they are getting.

Mr. HAUGEN. They would not accept it on a certificate?

Mr. LOVE. No; they would not take it from us. They know, or they think, that we are reputable people. We go down to the warehouse and get the samples, and it is not more than two days before they see them and put them on the table; and they will not take our samples.

Mr. HAUGEN. And it is customary to examine every bale, is it?

Mr. LOVE. That is the only way of doing.

Mr. HAUGEN. By the spinners—the spinners examine the cotton that they buy—these bales?

Mr. LOVE. I do not think that you understand how the cotton is sold. A spinner comes to Memphis and wants 500 or 1,000 bales.

Mr. HAUGEN. Yes.

Mr. LOVE. Now, we take that cotton and put it on the table, the different grades. We never try to make a man take what he does not want; if we do we get low prices.

In order to facilitate matters, our tables will hold 150 samples. We will pick out a table of middling, strict middling, good middling, and different lengths.

Now, he comes in and examines the cotton and fills his bill. The average spinner uses only a few grades, and they do not buy what they do not want.

Mr. HAUGEN. On an average, how many grades does a spinner use?

Mr. LOVE. You could not make an average of that, because it is dependent upon the class of goods the spinners make. If they are making fine domestics, they probably would not use more than two grades of cotton. Now, when the spinner buys that cotton, we give our warehouseman a list of those numbers; we number each bale of cotton as it goes in the warehouse. We begin the season with No. 1, with the planter's mark and number on each one of those bales. When we sell that cotton we order it out by those numbers.

Our weigher adds the weights on the cotton or the buyers can do so. Then the buyer goes and examines that cotton and sees that it is all right; he does not take our examination; he buys by his samples—

Mr. HAUGEN (interposing). He buys by the samples, but he examines the cotton before he gets it?

Mr. LOVE. Yes, sir.

Mr. HAUGEN. That is what I wanted to get at.

Mr. LOVE. And if the cotton does not come up to within half a grade of the sample, on good cotton, or one grade on low cotton, which makes it very favorable to the man who owns the cotton, because those grades are now from \$3.50 to \$5 apart, he does not have to take it; if it comes up to within half a grade on the good cotton and one grade on the low cotton, under the rules of our exchange he must take it.

Mr. HAUGEN. Now, just one other question: Are you for or against the standardization of cotton? Is it practicable? Can it be done?

Mr. LOVE. There is no objection to the standardization or grading of cotton; but you are not going to give the relief by that that you think you are now. As I say, you can not use those samples all the way through. You can only use them at the beginning and at the exchanges. In this middle space I do not think you can use them. I do not think any spinner will take those samples, because there are so many different parts of a bale and so many bales in a carload of cotton.

Now, you take wheat; you can take this immense carload of wheat and get the average of that wheat. You put it in the bin and you know you have got No. 1, 2, 3, or 4 wheat.

But with cotton you can not do that. You have got to put those augers into a bale, and then the cotton dries out where you have the holes. And whenever you touch it, the man who is raising the cotton has got to suffer. And yet I suppose all this is done with a view of helping the producer.

Now, if I was a cotton producer—I do not raise any cotton, but if I did, I would not want my cotton bored, because if it was it would lose considerable in weight in the course of a few weeks, no matter whether it was pulled out or not; if you bore it with an auger you will have a loss in the weight of that bale.

Mr. REILLY. Do you not have to do that under the present system?

Mr. LOVE. You only do that when the buyer comes and that cotton has already been weighed, and if the cotton does not come up to within half a grade on good cotton, under most of the exchange rules the buyer can reject it, and on the lower grades he can do so if it does not come within one grade of the sample. But what if you are going to adopt this grade system?

Mr. REILLY. The mere fact that this bill provides for the establishment of definite standards does not necessarily change the method of determining the standard, does it?

Mr. LOVE. No; and I do not think nine grades will cover it.

Mr. REILLY. That is a different matter; you may object to the number of grades, but you have stated that it is impossible to grade cotton.

Mr. LOVE. No; you misunderstood me.

Mr. REILLY. That is, to grade it so that it will cover all the different sections of the country?

Mr. LOVE. I say that the same standard would not cover the different sections of the country.

Mr. REILLY. Well, the same grade, then?

Mr. LOVE. Yes. Now, you take the Delta country; very little of that will be lower than  $1\frac{1}{8}$  inch. When we sell it as upland cotton we get 15 or 16 cents for it. It is all the same grade, but there is a difference in price owing to the staple. Each section of the country has a different grade.

Mr. REILLY. Then, according to your opinion, it is absolutely impossible to establish the same grade for the whole country?

Mr. LOVE. I do think so. You would have to have a grade for South Carolina, you would have to have a grade for Georgia, a grade for Mississippi, and a grade for Oklahoma. Oklahoma, I am sorry to say, would be about the worst—and then you would go on down to Texas and have different grades there.

Mr. HAUGEN. The representatives of the New York Cotton Exchange who appeared before this committee—Mr. Marsh and I do not recall the names of the others—have approved the standards fixed by the Department of Agriculture and have O. K'd them.

Mr. LOVE. Now, when you speak of the New York Cotton Exchange you must remember that you are dealing almost wholly with futures. Our exchange—

Mr. HAUGEN (interposing). I was trying to find out the difference.

Mr. LOVE. Our exchange does not deal in futures. We deal in actual stuff. Now, I admit that in blocks—

Mr. HAUGEN (interposing). Well, I want to find out the distinction between the two.

Mr. LOVE. You spoke yesterday about 100-bale blocks. I believe cotton on the future market is sold in 100-bale blocks—but I do not want to take up too much of the time of the committee, and I will not go into that.

The CHAIRMAN. We are very much obliged to you for your statement.

Mr. LOVE. Thank you.

The CHAIRMAN. Shall we go on, gentlemen of the committee, for a few minutes and hear some of the commissioners of agriculture of the Southern States?

Mr. HAUGEN. Let us hear them now.

#### STATEMENT OF MR. E. W. DABBS, PRESIDENT OF THE STATE FARMERS' UNION OF SOUTH CAROLINA.

Mr. WATSON. I want to introduce now, Mr. Chairman, Mr. E. W. Dabbs, the president of the State Farmers' Union of South Carolina.

The CHAIRMAN. Will you give your name and state whom you represent?

Mr. DABBS. My name is E. W. Dabbs; I am president of the State Farmers' Union of South Carolina; also chairman of the committee on banking and currency of the State Farmers' Union and chairman of the National Farmers' Union committee on treasury deposits, and I am also associate editor of the *Aggressive Farmer*, the paper of the farmers' union.

I understand that the time which I have is very limited; and it will be very hard for me to go into the matters which I would like to go into in the time which the committee has at my disposal.

I would like to say at the outset that my opinion of this bill that you have before you now is that we do need some official standardization and grading to protect the banks on the one hand and the farmers on the other. There has been a great deal said about the hundred variations in the types of cotton that are sold. The farmer does not know anything about more than five or six or eight, at the outside. These variations may come in when the mill buyer gets a lot of cotton, and he makes a profit of 25 or 50 cents on a bale by reason of a variation of one-sixteenth inch in the length of the staple. But the farmer has nothing to do with that.

The CHAIRMAN. Right in that connection, before you get away from it, I wish you would tell the committee, because you are a farmer yourself, just how a farmer markets his bale of cotton?

Mr. DABBS. A farmer takes his bale of cotton to town, and if he is a man of some reputation, he samples it before he leaves home and takes his sample along with him; the buyers examine the sample and buy it on the sample he submits.

But in the case of a great many farmers the buyers have not the confidence in the farmer, and want to see the cotton themselves. They cut one side of the bale, and in some instances on both sides of the bale, and they take a sample out and they say, "I will give you so much for that cotton." That is the wagon selling of cotton with which I am familiar.

Mr. ANDERSON. Does the buyer taking the sample attempt to say to the farmer what that cotton will grade?

Mr. DABBS. Well, if he knows his business he does not usually tell the farmer, "Well, I grade that cotton as low middling," or "I grade that cotton as strict middling," and so on; if he is a man of average intelligence he does not say anything to the farmer about that; he simply says, "I will give you 11½ cents for that cotton; you can go to somebody else and get a price and come back to see me—or you need not come back to see me any more," as the case may be.

What we object to in the sampling of cotton, from the farmer's standpoint, that that is not the only time the cotton is sampled, but every time it changes hands it is sampled, and there is an accumulation of several bales of cotton at the end of the season that the buyers have gotten out of cotton before it is ever shipped. Now, gentlemen, the price of cotton here in this country is fixed by the price at Liverpool, and the price of cotton at Liverpool is fixed by the net price of cotton in the mills of Lancashire; and every pound of cotton taken out between the time it leaves the farm and the time it gets to those mills is a loss to the farmer.

Now, the gentleman who preceded me has said that a sample of five or six ounces to a bale was sufficient; but I have seen a good many samples of a pound taken out of a bale.

Suppose a pound is taken out of a bale three or four times, and it is taken out at different places in the bale and in such a way that the cotton loses every time the hook is put into it, or every time it is put into a truck—because cotton is like a rag baby—with five or six ounces hanging loose, worn off; I think you gentlemen have had

hearings in which the condition the cotton was in when it reaches Europe was shown.

What the farmers' union want is some system of cotton sampling by which this continuous sampling would be avoided if possible. I am a joint author with former Senator McLaurin, of South Carolina, of what is known as the "Farmers' union cotton warehouse bill" in South Carolina. We propose to standardize cotton in South Carolina, and we propose to safeguard a great many things which the gentleman has told you about. We want to bring up the standard of the ginneries in the country. We do not believe that a man who grows cotton has a right to sew it up in guano sacks, or that the man who gins it has a right to wrap it up like a rag baby or a scarecrow, when it is a great product of the country, worth \$600,000,000 last year in its export trade.

Now, I think your bill, Mr. Chairman, is in line with what we have been trying to do in the farmers' union. I do not know that the exact provisions of your bill will cover all that is necessary; but I do think you are taking a step in the right direction when you attempt to fix cotton grades so that when a man talks about middling cotton he will know whether it is middling cotton he is talking about or something else.

I understand that in Augusta they have one type of cotton for middling cotton, and in Charleston and in Memphis, probably, they have another type of cotton for middling cotton.

Mr. LOVE. That is on account of staple. I say the grade will be the same, but in the different sections of the country they produce different staples.

Mr. DABBS. Well, Mr. Chairman, the farmers' union in South Carolina has a bill that we hoped would become a law before this time, but it has not, because of politics; and we say that we want to include the cotton grading, as well as the staple.

I wanted to ask the gentleman who preceded me a moment ago in the case he cited where the gentleman got a certain price, whether it was five-eighths-inch staple, or whether it was  $1\frac{1}{8}$ -inch. In our country we have never got a price at all unless it was  $1\frac{1}{8}$ -inch staple. Your bill, Mr. Chairman, will be faulty if it does not provide that these official graders should give the length of the staple. It will be faulty if it does not provide that the men who persist in growing cotton with five-eighths-inch or nine-sixteenths-inch, with all the variations up to 1-inch, staple shall not get the same price for their cotton as the man who grows 1-inch cotton gets, just as it would be wrong for the man who grows  $1\frac{1}{8}$ -inch cotton not to be able to get more than the man who grows  $1\frac{1}{8}$ -inch cotton; all those variations will have to come in.

The CHAIRMAN. What you have been working on, Mr. Dabbs, and what this bill attempts to do, is to have some disinterested party between the man who sells and the man who buys cotton, so that the farmer may have some information as to the value of the thing he sells.

Mr. DABBS. Exactly. And there are more reasons than that. One is that the farmer may have exact information about what he is selling. Another is that the bank will have exact information upon the class of paper upon which it is loaning money; because we recognize that under the conditions of growing cotton, and under the

conditions of marketing cotton, unless there is some change in the system by which it is now dumped into the market as fast as it is taken from the fields, we will break the market in a normal year, and not only in a year when we have war.

The CHAIRMAN. What do you have to say as to the recently proposed plan of licensing warehouses?

Mr. DABBS. I think it is a good one. I think that the warehouses should be inspected, and that if they come up to a proper type as a warehouse where cotton can safely be taken care of, it should be done so that when they issue a paper it will be known not only to the little bank in the little town where it originates, but so that the bank in New York or in Europe will recognize it as having the seal of the United States Government behind it.

That is why I am in favor of something bigger than a State-wide system. In South Carolina we tried to go ahead of the rest of the States and establish a State system. We have not done so yet.

Mr. ANDERSON. Do you mean a State system of warehouse inspection?

Mr. DABBS. A State system of warehouses with the inspectors bonded officials, whose duties it would be, in the language of an old statute, "As well to protect between buyer and seller as to prevent this article from coming into disrepute in the markets of the world."

In other words, we want to reform the cotton trade right from the ginhouse, and we are working along that line.

And I am sorry to see my friend over there [indicating], who has been in the business so long himself and who is a splendid cotton factor, not in line with everything that will help to put the cotton trade on a proper basis.

Mr. REILLY. Does your idea include the fact that there would have to be a Government inspector, at every place at which the farmer sells a bale of cotton?

Mr. DABBS. I would not say at every place, because some of the places are too small to support a Government inspector. But there certainly should be in every county that grows a great amount of cotton—take my county, for instance, there should certainly be two or three there; there are two large shipping points in my county—there should be in every such county an inspector to inspect that cotton.

The CHAIRMAN. You do not mean necessarily that they should be Government officials, but they ought to hold a license from the Government as to their competency?

Mr. DABBS. Yes, sir; I think so.

Mr. McLAUGHLIN. Employed by whom?

Mr. DABBS. They would have to be employed by the warehouse; and I would prefer to see the warehouse a State warehouse, because of the unification of the system, and the prestige which would go along with that, rather than a private warehouse owned in one place by John Smith, and in another place by Thomas Jones & Co.—although those warehouses will hold the actual cotton just as well as if they were a Government warehouse, the collateral which they would issue on that cotton would not be as liquid as it would be if it was a public warehouse.

Mr. REILLY. How are you going to take care of the farmer who sells to the small country buyers?

Mr. DABBS. Well, sir, the protection which that farmer would get would be that he would have, as a matter of common information in his neighborhood, the knowledge that certain cottons graded certain staples and certain values over at the county seat or at the next market town; and the buyer of his cotton would be apt to come nearer doing him justice if he had that information than he would if there was no standardization in that county; and if he was not satisfied with the local buyer it would be only a matter of a few miles to a place where he could get that cotton inspected.

Mr. REILLY. Why does not your State do that for yourselves, and in that way protect the planters?

Mr. DABBS. Well, we have tried to do that, and if it had not been for politics we would have had that in our State now.

Mr. REILLY. I mean not only your State, but the entire South?

Mr. DABBS. Well, somehow or other we have got an idea that it is paternalism, and the people are afraid of it; they are afraid that it is launching the State into a line of business which the State constitution never did contemplate. I think that has had more to do with it than anything else.

Mr. REILLY. It seems to me that it is a thing for the State to take care of, rather than the National Government.

Mr. DABBS. I have made this argument: The State is aiding railroads, and building colleges, and building schools, and teaching the people how to produce this crop; and they have said "We can not do anything more for you along that line; you have learned to produce two bales of cotton where you produced one before; you will have to do the best you can after you have produced the cotton; we can not do anything more for you." The State is not doing its duty by the citizens—and when I say that, I mean that the citizens of the State are not doing their duty by themselves—as they themselves, of course, constitute the State.

The CHAIRMAN. Is there anything further that you wish to say, Mr. Dabbs?

Mr. DABBS. I have a great deal more that I desired to say on this matter; but the time of your committee is limited, and I have made some notes here about each point I wanted to bring out, and I have only in a general way covered the subject, and have left out a good deal I wanted to say. You have a good many others who want to be heard on this subject.

But I want to say this, that we are interested now in immediate action, because the growers of the staple, the people who grow 1, 2, 3, 5, or 10 bales of cotton, and own up to 100 bales or 1,000 bales, are going to become bankrupt if something is not done to enable them to market this crop.

Mr. HELGESSEN. What is it that you want done by the United States Government?

Mr. DABBS. I want to see the United States Government, which controls the money of this country—the currency of this country—deposit in the banks of the cotton section sufficient money for those bankers to be able to handle the present situation.

I ought to have been to-day before the Comptroller of the Currency, with a committee which comes from my town, to protest against what the Secretary of the Treasury did last year, and is doing again this year, in putting those Government deposits in the



First Central Bank. I think it would be well for this committee to take the matter up with him. The National Bank of Sumter, with \$25,000 capital can just as well safeguard the Government for its deposit, for the amount which it ought to have, as the national bank in the city of Columbia, with \$25,000 capital, for the amount it ought to have. Now, last year they deposited that money in four or five of the big banks of the State, at 2 per cent interest. As soon as we heard of that we thought it was a good thing and ought to do the South a great deal of good. I got into communicatin with those bankers and they said, "We can not let your banks have that for less than 6 per cent."

Mr. REILLY. The gentleman who just preceded you said that it would not be sufficient for the Government to furnish the money, because the banks would not take the risk if the Government did so.

Mr. DABBS. I do not know that I can speak for the banks, but if the banks could get the assurance that they would have the money, not only to handle half a million bales, but to handle the entire crop if necessary, they would take the risk, because if it is the policy of the Government and of the entire South, the risk would be avoided. The risk would be tremendous on Memphis and its immediate territory; and the risk on South Carolina would be such that we could not undertake it alone; but if it is the uniform policy of the South backed by the Government, the whole South would go into it I think. I speak from my knowledge of all of my friends in the banking business in the city of Sumter, and of what they have done heretofore, when I say that.

Mr. HAUGEN. Do these small banks have the kind of security that is required by the Government in making deposits?

Mr. DABBS. Well, you know the kind of security could be made such that none of them could have it. But they have ample security for any amount they would reasonably need.

Mr. HAUGEN. Well, my understanding is that the Government only deposits its money in the bank when they put up a certain kind of security—certain bonds, and so on?

Mr. DABBS. Well, they do not even require any bonds this year. Last year they required 10 per cent of national bonds. This year it is commercial paper of various kinds—under the new banking and currency act.

Mr. HAUGEN. Under the old system they did not accept commercial paper as such security?

Mr. DABBS. No; they did not accept commercial paper.

Mr. HAUGEN. But they do now?

Mr. DABBS. I think they did last year.

Mr. HAUGEN. Well, was it not bonds and stocks?

Mr. DABBS. Well, what we objected to was that these banks have got to have the money; that is, in Wilmington they would let them have it at 6 per cent providing they left 25 per cent on deposit; that is, it would cost those banks 8 per cent.

The CHAIRMAN. We are very much obliged to you for your statement.

Mr. DABBS. I am much obliged for the opportunity of making it.

The CHAIRMAN. Gentlemen, Dr. Cobb, who was in charge of the cotton standardization work in the Department of Agriculture, has

requested me to extend to you gentlemen here a cordial invitation to visit his office and see what is being done. Dr. Cobb is here this morning.

Now, Mr. Watson, will you present your next witness?

Mr. WATSON. Mr. Chairman, in view of the fact that this banking matter has come up for discussion, I think we had better hear Mr. Dial, who is interested in banking, for a few minutes.

The CHAIRMAN. We will now hear Col. N. B. Dial, of Laurens, S. C. Mr. Dial is a citizen of my own State, and is familiar with the subject, and can tell us about it briefly.

#### STATEMENT OF MR. N. B. DIAL, OF LAURENS, S. C.

Mr. DIAL. Mr. Chairman, the plan that I advocate is not a war measure at all; it is a business measure, but would be of very great benefit now since we have this great war in Europe. It is this:

I desire to get Congress to pass a bill authorizing national-bonded warehouses, under a license, or some similar system; I am not much of a man for detail.

Now, there are three ways to market the cotton crop, as I understand it.

One is private warehouses. We have them in our State. I am president of one of them. The trouble about that is that the capital is small, and they would not give the confidence to the moneyed world. You gentlemen would not lend money on my warehouse receipts, because you would have to investigate that warehouse and learn all about it. They lend on its receipts in the local banks, because they can go and see it, and whether it is properly managed, and whether it is insured and sprinkled.

The second way is for the States to go into the warehouse business. I do not believe it is the business of the Government, State, National, or any other, to go into the business of loaning money. If that is a legitimate business, it is the business for the citizens.

A few years ago our legislature authorized the State of South Carolina to go into the warehouse business. The supreme court of the State held that that was unconstitutional—and properly so.

I am not opposed to the State doing something like that. You might have to amend your constitution and get all the details figured out. The objection to that is this: If one State or another did not do that, you would not take care of a great quantity of cotton at one time. What we want to do is to gradually market the cotton throughout the whole year. The money world knows that cotton has to be marketed in a very short space of time.

Now, the farmer brings cotton into the town and sells it at 10 cents, or 15 cents, no matter what the price is, he has got to sell it. Perhaps half of the cotton crop is sold by tenants to the local merchants, and the local merchants sell it to the local banks; and the local banks to the northern banks, and all of them have to meet their obligations. The small banks down there try to pay all the eastern banks before Christmas each year; so the cotton crop has to go on the market within a short space of time. I am interested somewhat in a cotton mill. But I want the man who produces the crop to get the very best price for it that is possible.

Now then, gentlemen, what I want if possible, is to get that cotton warehouse receipt into shape so that it can be used anywhere; so that a man can walk into a bank in New York and say: "There is my receipt for so many bales of cotton; I want to get the money."

We have got to be practical about that. If we had a South Carolina warehouse receipt for the cotton we could borrow money on it better than with the receipt of an individual warehouse like mine.

Now, if we got a Government receipt—I am trying to get the Government to guarantee that receipt in the same way. Well, I confess that it took me some little time to get around to that. But in this complex Government, where the State has some rights and the Nation has some rights—for instance, we can not issue money in the State of South Carolina; it is necessary to come to the Government for that—I can see the reason and justice of asking Congress to help us. You gentlemen appropriate money to help me to improve my crop; and after I have improved and increased my crop, then I get a lower price for it.

I am not a Populist, or anything like that; but I want to get the confidence of the whole world in the cotton business. If we can get our cotton into shape to be used as collateral in any place, we can borrow money all along on it.

I was talking the other day to a gentleman who said that some grain exchange out West had the secretary of the chamber of commerce countersign the warehouse receipts; and those receipts were accepted even by the Canadian banks. He said they had never had a loss out there.

Now, my idea is this: That you gentlemen can pass a bill providing for bonded warehouses, in which nonperishable products of the soil could be stored, and let the warehouse company furnish a strong bond to the Government, say one and one-half times the amount of the receipts it proposed to give, and then let the Government guarantee those receipts.

Mr. HAUGEN. Would it be necessary for the Government to guarantee the receipt if the Government holds a bond?

Mr. DIAL. The only thing that is desired is to give confidence. Excuse me for a personal allusion, but take the warehouse I have built in my little town; the capital stock is very small, because it only takes a few thousand dollars to build a fireproof warehouse of brick and mortar. Now, we store perhaps \$200,000 worth of cotton in the warehouse, where the warehouse cost only \$20,000 to build. Suppose that each one of the owners of that cotton should come into the warehouse and say, "Where is my cotton?" And suppose that the cotton was not there. Now, I want the warehouse company to give a bond, so that the owners of that cotton and the people who advance money on it will be protected; otherwise a warehouse concern of half a million dollars ought only to store a quarter of a million dollars worth of cotton; but in the absence of a large capital I am suggesting the giving of a bond by the warehouse company to protect the Government for its guaranty.

Mr. HAUGEN. Well, I do not think the Government ought to go that far, but it ought to go as far as it can; if they get the warehouse to protect the holders of the receipts by the giving of a bond it seems to me that would be sufficient.

**Mr. DIAL.** Possibly so. But suppose I go to New York with my receipt for a hundred bales of cotton; if that is issued by a private warehouse the bankers there have not time to investigate that warehouse; they do not know whether it is bonded or insured, and therefore they will not take the trouble to go into the matter. But if I take my receipt as collateral, when the New York banker looks on the back of it he sees that the Government has countersigned it; there is some security there that he has confidence in, and I can put that receipt up as collateral anywhere.

**Mr. McLAUGHLIN.** When you take a receipt of that kind to a bank, what is the next step?

**Mr. DIAL.** Here is my idea: If we could get that done, and get warehouses in the South strong enough to inspire confidence in the moneyed world, the result would be that our bank correspondents in the East and West would write down there and offer to loan out money to us on all those receipts.

**Mr. McLAUGHLIN.** But you outlined a scheme for Government warehouses and the issue of receipts which would enable the holder of those receipts to go to a New York bank; then what would happen?

**Mr. DIAL.** Well, what happens now?

**Mr. McLAUGHLIN.** What would happen at the New York bank?

**Mr. DIAL.** Well, then, I think a New York bank, if it was going to lend money on any collateral in the world, would lend it on that receipt. Of course you can not make people lend money, and say, "You have got to lend it anyhow"; but there is nothing that can be converted into cash any quicker than cotton; it does not deteriorate; there is a bale in my house that was raised the year I was born—52 years ago.

**Mr. McLAUGHLIN.** When you take those receipts to the New York bank, the bank will lend the money on them or not, just as it pleases?

**Mr. DIAL.** Exactly.

**Mr. McLAUGHLIN.** How would you induce the bank there to lend money on those receipts?

**Mr. DIAL.** That is just a question of banking and trade and merchandising; you can not force them to lend out money at all, but you will be taking a long step in placing your cotton in such shape as to be good collateral.

**Mr. McLAUGHLIN.** But you are talking about the Government guaranteeing something. Now, right at the bank where you are doing business on these receipts, where does the Government step in under your plan?

**Mr. DIAL.** All I want the Government to do is to guarantee the validity of the receipt, so that the receipt will have the stamp of the Government and the confidence of the world.

**Mr. HAUGEN.** The Government will guarantee the delivery of the cotton when it is called for?

**Mr. DIAL.** It would guarantee the genuineness of that receipt, and the warehouse would give the Government a bond to protect it if anything should turn up against the receipt.

**Mr. HAUGEN.** Suppose you are a warehouseman; you give your receipt to the holders for that cotton, and you give the Government a bond; ought not that to give the warehouse a standing, and ought not that to be sufficient?

Mr. DIAL. How does the Government O. K. the receipt? How would you lend me money on that unless the Government would put something on the receipt?

Mr. HAUGEN. Unless the Government would certify it?

Mr. DIAL. Unless the Government would certify it; a license system possibly would answer.

Mr. HAUGEN. I mean a license system, coupled with a bond.

Mr. DIAL. A license system coupled with a bond, then you would have confidence.

Mr. HAUGEN. Is that not as far as the Government ought to go?

Mr. DIAL. I rather think so.

Mr. HAUGEN. And then do away with this guaranty?

Mr. DIAL. And then you would be putting it into shape so that I could use it anywhere, and you will get confidence everywhere.

Now, then, gentlemen, I do not suppose you can go ahead and pass a bill for cotton alone; that would be class legislation. But my idea would be to make those warehouse receipts cover nonperishable products of the soil—such as potatoes, for instance. Then it would be a question between the holder of the receipt and the man who had the money as to whether he would lend the money on corn or other grain. I do not know how perishable grain is. But I have had some experience along that line, and I am sure that if we could get this warehouse with a strong enough capital back of it it would be of great value. But you would not need much capital to build the warehouse. But you do not need to use that capital all the time, because at certain times of the year you have not anything in the warehouse; at this time of the year there would not be over 100 bales of cotton in your warehouse, and therefore you do not need much capital in the warehouse business.

Mr. HAUGEN. All the capital a man needed would be that required to build the warehouse; he does not advance any money on the cotton, does he?

Mr. DIAL. No; that is all. He does not advance any money on the cotton. We do in our bank, because it is connected with the warehouse. The way we work it, we write to the New York banks, and the warehouse people indorse it, and then they let us have the money. They have always loaned us the money, except in times of panic.

Mr. HAUGEN. What do you do with the receipts now? You are a banker, are you?

Mr. DIAL. Yes, sir.

Mr. HAUGEN. Suppose there is a farmer who holds a receipt for 100 bales of cotton; he comes to the bank—

Mr. DIAL. Yes, sir.

Mr. HAUGEN. And you lend him money?

Mr. DIAL. Yes, sir; we lend him money.

Mr. HAUGEN. You discount his paper?

Mr. DIAL. I take his note with the receipt as collateral.

Mr. HAUGEN. And you send that to New York?

Mr. DIAL. I send that to New York.

Mr. HAUGEN. And that is accepted in New York?

Mr. DIAL. That is accepted in New York, but not by reason of the warehouse receipt, but because they know me. The warehouse is not strong enough for that. Now, we can do this—this will give you gentlemen a little information: When we first built that warehouse

the insurance was  $4\frac{1}{2}$  per cent; now it is one-fourth of 1 per cent. We put in sprinklers, and we got a very low rate finally.

Mr. HAUGEN. Now as to the bank, what security would the Government require to advance the money?

Mr. DIAL. The Government?

Mr. HAUGEN. Suppose you are making application for \$10,000 on your reputation.

Mr. DIAL. I suppose the Government would have to have bonds; I do not know how far they have gone—what the bank would have to do.

Mr. HAUGEN. Well, up to the present time, have they accepted any collateral except the bonds?

Mr. DIAL. I do not think so.

Mr. HAUGEN. As a general thing, the country banks have not the security?

Mr. DIAL. No; they have not the security. For instance, take our little bank. We have \$100,000 capital, and we have loaned out a quarter of a million dollars. Or we have borrowed some money in New York; no very large amount, however. But I had hoped that they would put this new banking system into operation, and I hope you gentlemen will do all you can—

Mr. HAUGEN (interposing). Have you looked into that to see what will be done under the new system for your bank?

Mr. DIAL. No; our bank is a State bank, but we are going into the system. Now, as to lending money on the cotton, it depends upon the strength of the holder of the receipt. If we look to the cotton alone, then we are careful of the amount of money that we advance on it, because the price may go down. We have a right to call for additional collateral, of course. But if a man is perfectly good, it makes little difference to us whether we loan him the full value of the cotton or two-thirds of its value.

Mr. HAUGEN. You have the right to call for additional collateral?

Mr. DIAL. Yes, sir. I will tell you of my experience of 15 years. We have never lost a dollar on a warehouse receipt, and we have loaned out hundreds of thousands of dollars.

I am not asking the Government to lend one cent directly on cotton. My plan I talked to the committee about two years ago. I have it printed here [indicating]. And if you pass this warehouse bill, as soon as this war scare is over we will need a great deal of money to market the cotton crop.

Mr. HAUGEN. The warehouse bill; what is that?

Mr. DIAL. I am trying to get you to amend your present bill.

Mr. HAUGEN. Do you mean the Government or the State?

Mr. DIAL. I say in this pamphlet [indicating] the Government. But I think warehouses already built ought to be used; but I think that where warehouses are to be built you should not go into these great big congested cities; but my idea is that wherever they have water works, and the farmers in the community want to store cotton, let them get together and organize a warehouse company, where they can have insurance and where they can have sprinklers, and where you can get a warehouse receipt and can borrow money on your receipt.

Mr. HAUGEN. Will you explain that "sprinkler"?

Mr. DIAL. An automatic sprinkler is a device for sprinkling water; it is a tank with a wax arrangement so that in case of a fire the water will flow out and nobody has to turn it on.

Mr. HAUGEN. It sprinkles only in case of fire?

Mr. DIAL. Yes. If the fire occurs at night, and nobody is there to turn it on, the sprinkler protects the cotton. That is the reason you get such a low rate of insurance when you have a sprinkler.

Now, we have a great many warehouses in South Carolina—one very large one—and we have them scattered over the State. Now, we can get cotton-mill warehouses all over the State; we could rent those, you understand, and we could take care of a considerable amount of cotton.

Mr. HOWELL. Do you buy and sell cotton?

Mr. DIAL. Oh, no.

Mr. HOWELL. Why should not your certificate or warehouse receipt be absolutely good anywhere?

Mr. DIAL. It has not got the confidence of the banking world. You would not lend any money on it; you would write and ask, "How much is the capital stock of your warehouse?" I would say, "\$25,000." "How much cotton have you got stored?" "\$200,000." Then you would say, "That is out of proportion." It does not take much money to build a brick-and-mortar warehouse.

Mr. HOWELL. Well, you can not dispose of that cotton?

Mr. DIAL. Not honestly. But suppose I should steal it; or the warehouse might take the cotton out, thinking they would replace it, and not do it. What I want is to create confidence in the minds of the capitalists.

Mr. HOWELL. If you sold that cotton, you would find your way into the penitentiary.

Mr. DIAL. But that would not give the man back his money.

Mr. HAUGEN. What is your idea about Government standards?

Mr. DIAL. I am not interested in them. We only know of a few grades. I think anything that will help to steady these things and give us a better market would be an advantage.

Mr. HAUGEN. Well, but is that of any value?

Mr. DIAL. Yes; I think it is of some value. I am not an expert on that.

Mr. HAUGEN. Do you think it can be done?

Mr. DIAL. I think it can be done. Of course, as the gentleman said this morning, there is a difference of staple as well as of grade.

The CHAIRMAN. Is there anything further you desire to say?

Mr. DIAL. No. I will say this, that if you gentlemen could devise some plan of Government inspection, or some way or other to create confidence in the cotton receipts, the South would prosper, and they could borrow money anywhere on those receipts, I believe.

The CHAIRMAN. We are very much obliged to you, Mr. Dial.

#### STATEMENT OF MR. E. J. WATSON, COMMISSIONER OF AGRICULTURE OF THE STATE OF SOUTH CAROLINA AND PRESIDENT OF THE SOUTHERN COTTON CONGRESS.

Mr. WATSON. Mr. Chairman, we have here to-day the commissioners of agriculture of the State of Texas, the acting commissioner of the State of Georgia, and the commissioner of Alabama,

the commissioner of North Carolina, and myself, the commissioner of South Carolina, and also representing the Southern Cotton Congress.

I do not know that you can hear those gentlemen this morning. I doubt if any of them care to present any particular demand. They are simply here to give moral support to Mr. Lever's bill.

To-morrow our Southern Cotton Congress, which is considering this entire cotton question in this crisis, assembles in Washington in the Democratic caucus room of the House; and we are particularly anxious and desirous of having every member of the agricultural committee of the House attend those sessions if it is possible for them to do so. That will take up most of the time of these gentlemen for the next few days.

The CHAIRMAN. What time do you meet to-morrow?

Mr. WATSON. To-morrow morning at 11 o'clock. That congress is composed of bankers, textile manufacturers, actual producers of cotton factors—in fact everybody connected with the growing, handling, and marketing of cotton in every way; and we have come over here to thrash out our situation so far as we can see it, and to cooperate with the Federal Government in what we consider a great national question.

I would like the privilege of going over this standardization matter tersely and compactly with this committee, taking the bale of cotton from the time it is offered on the market and carrying it all the way through until the European spinner gets it. I have been through the whole thing at that end, and I consider this Lever bill one of the most vital things affecting cotton.

I think I am in a position to explain very clearly to every member of this committee, irrespective of party, what this thing means to the future of American cotton, and I would like the privilege myself, when the committee meets again, of appearing before it briefly for that purpose.

I may say that the commissioners of agriculture who are present would be glad to come up on Saturday morning.

Mr. W. R. GRAHAM. Mr. Chairman, if there is any way to get at it I would like to get an expression from the committee of what there is in the bill from the farmers' point of view. Now, I have read the bill through briefly and it seems to me the bill covers a good deal. As I understand the bill, it provides that the banks may receive warehouse certificates in making loans; if a man has a warehouse certificate he can go to a bank and get money on it.

I merely want to know if I understand the bill correctly. I have prepared a synopsis of the bill as I understand it. I am simply a farmer, and am not sure that my understanding of it is correct, and I hope during these hearings some member of the committee will explain.

The CHAIRMAN. I think the suggestion of Mr. Watson is a good one; that we had better adjourn until you gentleman get together yourselves, then you can come back and present your views to this committee.

Mr. WATSON. The commissioner of Alabama says he can not be here Saturday.

The CHAIRMAN. Would Friday night suit you?



Mr. WATSON. The sessions of the Southern Cotton Congress will run through both Thursday and Friday—unless its business can be disposed of in one day.

The CHAIRMAN. Then I think we had better meet at 2 o'clock this afternoon.

(Thereupon, at 12.40 o'clock p. m., the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

The committee reconvened at the expiration of the recess.

Mr. WATSON. With the committee's permission, I would like to have you hear the State commissioner of agriculture of the State of Texas, Mr. E. R. Kone.

The CHAIRMAN. All right, Mr. Kone, proceed, sir. First, give your name to the reporter.

STATEMENT OF MR. E. R. KONE, COMMISSIONER OF AGRICULTURE, STATE OF TEXAS.

Mr. KONE. Mr. Chairman and gentlemen of the committee, I feel proud of this opportunity which is given me to give my views about the matters before this committee, which concern us in the South.

We down South feel that we must have some aid and have it right now, and we want you to evolve some plan, and we are willing to help you evolve that plan to help us with our cotton crop now. We feel unless the Government will give us some aid right now that the South and the whole Nation will stand a loss that will cripple us for 10 years.

The first gentleman who talked this morning said that it costs \$45 a bale to raise cotton. I believe that one year after another it will cost 12½ cents to raise cotton. We haven't any price for our cotton now, and unless the Government will come to our aid in this crisis, I believe that we are ruined. I do not believe that we will make a large crop this year. As far as my State is concerned, the prospects are rather flattering right now, but we have the boll weevil with us, and the probability is that he may get the best end of the crop. If he does our crop is going to be short.

We have only two ways to fight the boll weevil: One is to plant ahead of him and get considerable of the crop before he gets there, and the other way is to fight him by cultivation. Now, our rains in the spring were so heavy that it threw us very far behind—five weeks behind. Our cotton in what is known as the cotton belt has hardly commenced to open yet. Down in the Rio Grande belt, of course, we are getting some cotton, and we have already picked some, and that portion of our State is going to make a pretty fair crop. Our Panhandle country is in fine shape, but a good portion of that is too far north to raise cotton, but what cotton we have in that section of the State is good, and the boll weevil scarcely ever gets up there. What we want is for this committee and this Congress to give us some relief right now. In other words, we want the Federal Government to evolve a plan by which the small cotton farmer can be benefited and get \$40, or 40 per cent, a bale on his cotton. That is what we want. I do not believe you would run any risk on earth to let us have \$50 a bale.

As I said a while ago, it is worth  $12\frac{1}{2}$  cents a pound to raise cotton, to the man who actually does the work. Of course, the landlord, who farms his land by renters, makes a good deal of money out of cotton at  $12\frac{1}{2}$  cents, but the renter at  $12\frac{1}{2}$  cents does not make \$300 a year.

Mr. HELGESEN. You say the renter does not make \$300 a year. That is on the basis of how many acres?

Mr. KONE. It does not make any difference how many acres he has, a renter will not make over \$300 a year on cotton at  $12\frac{1}{2}$  cents; that is, estimating his labor and his expenses and everything of that sort.

It may seem strange to you gentlemen, but of course down there the cotton planter does not only work from Christmas to Christmas himself, but, by the eternals, he works his wife and children from Christmas to Christmas. It is a mighty hard life.

Now, so far as this bill that you have introduced, Mr. Chairman, is concerned, the principles of it, in my opinion, are all right. There is a little too much of it. It is a little too complicated. That is all the objection I have to it—all the criticism that I propose to make. I believe that State should establish a warehouse system of her own, something after our State bank system, and I think the State ought to take care of that end of it, unless the Federal Government comes in under your bill and assists us in grading. But I feel this way about it, and I am drafting a bill along my own ideas now, to be presented to the next meeting of the legislature, and I hope that I will be able to pass it. I think that we have educated the people up along the line sufficiently to have the bill passed without any trouble.

Mr. HELGESEN. But all that is for the future. You are interested now in the immediate present.

Mr. KONE. Yes, sir.

Mr. HELGESEN. And what is your suggestion now for the present?

Mr. KONE. My suggestion now is for this Congress to evolve a plan by which they can let the small farmers of the South have from \$40 to \$50 a bale on their cotton.

Mr. HELGESEN. You mean directly out of the Treasury?

Mr. KONE. Well, you must have a system, of course, and make it safe. This is an emergency, gentlemen, like the one they had when this war broke out. There was quite an emergency; our people were over across the ocean, and you made provision for them. Now make provision for the men and women who feed and clothe the world.

I thank you for your attention.

Mr. HELGESEN. Just wait a minute.

One trouble is you people know more about local conditions in the South than this committee does, perhaps, and you come up here with two or three or four different propositions. Now, would it not be wise for you people to get together and agree among yourselves, and then bring to the committee and to Congress a proposition which you think will relieve the situation, which, knowing the conditions as you know them in the South, you at least believe would be proper and safe.

Mr. KONE. That is a very good suggestion, and we are going to try to get together to-morrow. We will try to formulate some plan that will be presented to you the next day or Saturday. We have not had time as yet.

Now, so far as I am concerned, and most of these gentlemen here, we got here this morning. We have not had time to consult as yet.

The CHAIRMAN. Is not this, however, true, that whatever we do in making cotton security or collateral, we have first of all to pass a grading bill so that when that bale of cotton goes into a warehouse its grade may be known? I should think that would be true, because that fixes its value.

Mr. KONE. Yes, sir.

The CHAIRMAN. That is the first proposition. Now, the second proposition is that the bale of cotton graded and its value fixed it shall be in a warehouse which shall come up to the requirements of a warehouse, and that fact certified to the Government as a basis of credit for the bale of cotton in the warehouse. Are not those two propositions fundamental?

Mr. KONE. I think so.

The CHAIRMAN. So that anything we do here looking to making cotton a basis of credit must have in mind first the grading of the cotton, and then, as to the next proposition, the proper warehousing of the cotton. Is that true or not?

Mr. KONE. Yes; it is. I think that the cotton ought to be graded, and we ought to know the value of it. I do not agree with the first gentleman this morning. I do not believe there are any 100 or 150 grades of cotton. About 9 grades are about all the grades there are.

The point is this: If the man who buys the cotton knows where to place the cotton, there is but very little difference in cotton anywhere. Certain mills use certain cotton, and certain other mills need different cotton. If you force a man to buy all grades of cotton, and anything that he does not need, of course he is going to get it down just as far as he can; but if the cotton is properly graded and the man knows where he can get what he wants—

The CHAIRMAN. To put his hand on the cotton?

Mr. KONE. To put his hand on the cotton, then there is not any great deal of difference in the value of cotton.

Now, I think that the Federal Government has made a wonderful mistake with farmers. It has helped him a great deal in making a greater yield, but it has not given him one iota of assistance in the marketing of the crop—not a bit.

The CHAIRMAN. I think it is fair to say, Colonel, that we are starting on that system of trying to help him market his crop.

Mr. KONE. That is what I believe you will do. I do not think it was willfully or maliciously or intentionally done, but the report of the Federal Government as to what the people of the United States were raising was absolutely a mistake without giving to the people of the United States what the world needed.

Mr. HAUGEN. Have you in mind any amendment to the currency law making it easier to get money on cotton? Was that one of your ideas?

Mr. KONE. Well, I have not got that plan worked out in my own mind, but I think we have men here who have.

The CHAIRMAN. Is there anything further, gentlemen? If not, we are very much obliged, Colonel.

Mr. WATSON. Next will be Mr. Graham, the commissioner of agriculture of the State of North Carolina.

**STATEMENT OF MR. W. A. GRAHAM, COMMISSIONER OF AGRICULTURE, STATE OF NORTH CAROLINA, RALEIGH, N. C.**

Mr. GRAHAM. The matter, Mr. Chairman and gentlemen, that you have before you, while it is very important to us individually, it is very important to the Government that the farmer should get a good price for his cotton. Heretofore the balance of trade as between this country and Europe has worked in our favor because we have our cotton crop to help us out along that line. Well, now, we are getting along where we were 25 years ago. We are getting the help of the subtreasury, and what we said was the matter with the country was true, and it has been shown that the farmer was right. We then made our suggestions as to a plan by which he should be relieved, and that plan is getting now to be recognized. That is, we thought that the property which called for an increase of the currency should be made the basis for which the currency should be increased. Now, you know that we go along in a business way with a certain amount of money, but suddenly we come in with our crop of wheat, cotton, and corn, and we simply have the same amount of money on hand to take up and dispose of our crop that was necessary to take care of the normal business of the country. That being so, then the price of our product goes down and it requires more money to move it, and the United States Government is the only agency that can furnish this money. Every panic we have ever had has been relieved by an issue of United States money. Take after the Revolutionary War, when Hamilton established the United States Bank, and in 1814, when Madison brought up the United States Bank; then in the panic of 1875-1877—every one of those has been relieved by an issue of United States notes. Now we say, Why not issue these notes when there is no panic if you are going to issue notes when we have a panic to correct it? Why not issue money now before the panic comes and ward off the panic? That is a plain, simple proposition, and I think you all can see the justice and feasibility of it.

The warehouse system as proposed in South Carolina is what North Carolina established years ago to take care of her tobacco crop. From 1877 to 1905, when the warehouse system was established, whenever a man went down to the market where the ships came in, if the ship was there he could dispose of his tobacco at a good price, but if there was no ship there he had to take what he could get for his tobacco. They authorized the then county courts (which now would be the county commissioners) to erect, either to build or erect, warehouses, and then they appointed an inspector who inspected this tobacco. He had to give a bond to the State for the performance of his duties, and take an oath to properly fulfill his office. Then when a man went down there and there was no ship there, he simply deposited his tobacco and got his receipt, and then he could carry that back two or three hundred miles in the country, and it passed current around the country.

That is exactly what we ask here now. The tobacco was the means of increasing the currency to move the tobacco, and that is what we ask along this line now.

Now, about the Government warehouse; I do not know but that the State is better, because laws along the lines you are passing here

will never apply to us. Congress passing a law here will not apply to North Carolina until North Carolina passes legislation to take advantage of that law. That does not apply in our State until we adopt it. And so it is along these lines.

Now, take your standards. Now, I live in the country, and we do not export goods. I can start out in the morning and have a choice of 35 cotton mills to which I can sell my cotton and come back at night, and I will not go over 35 or 36 miles. So that along that line we have our home market. Nevertheless, our home market is controlled by the market abroad. Our cotton-mill men go along on that line. Well, then, we have got to have the standards. I think it is ridiculous the way the cotton has been graded. For 300 years the real value of the cotton has never entered into the question of standards, but the color of the cotton and the amount of trash in it has governed.

When I saw that the Secretary of Agriculture had established nine grades of cotton, I asked what the length of staple and tensile strength had to do with the grading, and I was told that they were not factors. We all know that the value is in the length of staple and tensile strength. Millers do not care what the color is if there is the proper length of staple and tensile strength. That is what really fixes the value of the cotton. I do think in the making of these standards those things ought to be brought into consideration.

Mr. HAUGEN. Do they not take that into consideration now?

Mr. GRAHAM. I think so, sir.

Mr. HAUGEN. That was taken into consideration in fixing the nine standards, was it not?

Mr. GRAHAM. Yes, sir; I think so. Cotton below a certain length should be a certain standard, and above a certain length another standard. Now, why you want more than nine grades, I do not see. I have been in a great many mills, and you do not see low middling, strict middling, and so on. Any mill will spin any one of those two or three different grades. If that is so, why do you want the different grades? What necessity is there for it?

I have been raising cotton for 50 years, and I want to confess my ignorance about being able to determine the length of staple and so forth, and when we were getting ready for our farmers' institute this year I wrote to Washington to please let me have some one to send along to our folks who could explain that, and they did not have anybody to send me. That is what happened along those lines. I asked the professor of the agricultural college—our institute and the college work together a good deal—to come over and give us a talk. I asked him to make a talk there on the marketing of cotton. He brought in something about the linters, but he really did not understand, and I will confess my ignorance right here, and I have been raising cotton for 50 years and do not know what effect it has on the value of it. The time has come when that should be done. They are doing all they can in the department trying to find that out now. But the department has just recently been awakened along that line. You can see the importance of having a grade established. If you establish it here, it applies to the entire trade.

Mr. Chairman, you will recollect that I wrote you that your bill, while it authorized the Secretary of Agriculture to establish certain grades, did not legalize those grades and say they should control

where disputes arise. We would have to have that. We would have to have in our State, if there is a dispute, a provision that the grades as established by the United States Department of Agriculture shall prevail, just like they do in the pure-food law. We have the United States pure-food law in our State.

I think if the cotton grades are brought up to what they ought to be the farmer is going to get several million dollars more for his cotton.

Now, when you bring in a cargo of mules to our country a man does not sit down and say, "These mules cost me so much; that is an average of so and so and so—we will say of \$250—therefore I will sell them at \$250 apiece," but he gets each mule out and sells it upon its own character and its own qualifications. Exactly that same thing ought to be done with cotton.

Then, Mr. Chairman, I think the final result is going to be that the cotton will be graded and weighed by an inspector at the gin-house when it is baled and marked, and that will be the end of it, because the staple can not shorten, because if you take a sample to-day and go to handling it around you tear it to pieces; but if it goes to a cotton gin, and an expert, qualified inspector finds it is of such a length of staple and such a tensile strength, and it is of such and such a class, and it is not handled any more, it will remain that way.

And this talk about a large number of inspectors. When we had the revenue law here we had a great many revenue officers, but you did not have to have one at every stillhouse, but he went around from one place to another. Certainly one man could attend to a county, and sometimes to two counties. He could not be there every day, but he would have certain days when he would be at certain towns, when the cotton would be graded and marked, and then it is ready to be marketed, and that is the end of it, because it is actually weighed on that day under exactly the same circumstances that it is weighed anywhere else. Of course, he would have to make allowance for damages, that is true; but that, I think, will be the solution of it, sir. How he will pay those men I do not know.

I am going to send out eight expert cotton men to take a census of our counties. That will be done along that line. One of those men will report for the ginners. But this is where the standard grades will help us. I say the cotton is of such and such a grade and they say it is not. Now, then, if we have a standard which is made by law, we can just take that down and refer to it. You can see the necessity for that. That ends all disputes, and that will satisfy us; and then, when the State adopts that standard, that will settle all matters between us and our ginners around there.

I am not going into certain matters that we in our association of commissioners have taken up. We have taken up several matters which we would like to bring before you. One is the bagging and tying question. I do not want to go into that this evening. But I say we are losing \$10,000,000 or \$12,000,000 every year, and the only way to settle that is to have an association of planters, spinners, and ginners, etc. The other fellows do not have all this fuss about raising cotton.

Mr. HELGESEN. You started out by suggesting an increase in the amount of currency in order to help the banks help the farmer market his product. Through what channel do you expect the small farmer to get this currency?

Mr. GRAHAM. Under this present revenue bill, does it not allow a man to deposit his cotton receipt in a warehouse and borrow on it? And then, if the bank has not got the money, can they not notify the Treasurer of the United States, through this Reserve Board, and get the money?

Mr. HELGESEN. Yes, sir. I am asking you this question, because all this testimony, as I understand, or the bulk of it, refers to legislation and very little of it refers to legislation for the present, and you do not agree among yourselves upon either what is to be done for the future or the present. We are interested in getting a practical plan.

Mr. GRAHAM. The only relief, as we in the South view it, is through an increased currency.

Mr. HELGESEN. Well, but there seems now to be a way of getting that.

Mr. GRAHAM. It has come through our old subtreasury plan that we suggested years ago for getting the money out of the United States Government.

Mr. HELGESEN. And have the Government pay directly out of the Treasury to the farmer?

Mr. GRAHAM. Oh, no. Your bill reaches that—this present currency bill. I think that can be amended so as to care for that very well, sir. We do not want this way of sending money down directly to every little bank, but we want it so that the little bank can get the money without going out and paying a high rate of interest on it, so that before it gets there you have this high rate of interest on it.

That is another thing about this currency bill. If the bill is along the lines of Senator Fall's speech, you ought not to charge these banks a high rate of interest. If you are going to do that, you should limit them to 4 per cent. If you are going to give them the money free, you ought to limit what they are going to charge us for it. That is an honest proposition, and I want to call your attention to matters along that line. We do not want the middlemen to reap all the benefit of it. We want it to get back to the man who raises the cotton and who needs the money at that time. I think, as I said, the great object is now to head off the panic, to avoid a panic. After the panic comes you will issue the currency. Now, come out with the money and let us put this panic off. We have this cotton to sell, and our people have to have money, and they have to live on what they get from it. We have an increase of property here, consequently we have to have more money to handle it. That really is the whole thing in a nutshell. How can we have elastic currency, so as to meet the demands?

Mr. HAUGEN. The present law provides for that.

Mr. GRAHAM. Yes, sir.

Mr. HAUGEN. The present law provides for the elastic currency.

Mr. GRAHAM. Yes, sir.

Mr. HAUGEN. I understand \$500,000,000 has been issued.

The CHAIRMAN. Is there anything further, gentlemen?

Mr. GRAHAM. We old hayseeds feel pretty proud of what we said 25 years ago. You called us fools then, but that was just exactly what was the matter with the country—just exactly what you are proposing now for relief.

Mr. HELGESEN. Do you not think it would be a good thing for you people to get together and come before this committee with a concrete proposition, so that you will have something definite to place before us?

Mr. GRAHAM. We commissioners will have a meeting this evening, when we will try to work out some plan.

Mr. HAUGEN. You are all agreed upon the standardization of cotton?

Mr. GRAHAM. Yes, sir; I think so; but the value of the cotton should be based upon the length of staple and tensile strength. Then the next is licensed and bonded warehouses.

Mr. WATSON. Mr. Chairman, I expected the commissioner of Alabama and the commissioner of Georgia would have been here this afternoon, but they have not arrived yet, so if there is no objection I will have something to say myself.

Before I do that, however, Mr. Commissioner Kone suggests that we hear Mr. St. Clair. I believe he is from the State of Texas.

The CHAIRMAN. We would be very glad to hear him.

#### STATEMENT OF MR. CHARLES ST. CLAIR, OF TEXAS.

Mr. ST. CLAIR. Mr. Chairman and gentlemen, I have the honor to be the president and general manager of a corporation doing business under the laws of the State of Texas and located at Galveston, and we have been theorizing for a great many years, and we tried to bring our theories down to some concrete plan and work them out, and I can tell you something this afternoon of the difficulties and the successes that we have met with.

Mr. HELGESEN. What is the business of this corporation?

Mr. ST. CLAIR. We are a corporation of cotton planters, ginner, merchants, and country bankers located in the State of Texas who have combined together to find a suitable way in which to handle and market the cotton that is raised in the State of Texas.

We have a corporation of some 1,200 to 1,300 members. They subscribed, in the first place, for capital, and through the corporation they are marketing and handling not all of their cotton (it is not compulsory that they should handle any), but they have for the past year been handling a good deal of their cotton through the corporation with results very satisfactory to themselves.

Now, we went on this plan, that there are two requisites to the satisfactory handling of cotton, and those are, first, that you must provide a safe and secure place in which to store that cotton when you are holding it from the market, and then you must offer it at such times as there are buyers for the cotton. In other words, when there is a demand for the class of cotton that is being offered.

The difficulties that you gentlemen will have to face are a great many. We have had to face them in a small degree, but you are up against a very difficult proposition. The vested interests in the Southern States, the middlemen and the speculators, who, through the turns and crooks through which cotton passes, are making considerable fortunes every year, are naturally going to put every impediment in the way of working out any plan of standardization or of grading. In other words, they do not want the emoluments of manipulation from year to year to pass out of their hands.



Now, to get down to the actual proposition before the committee, in the standardization of cotton we want to find out what is exactly the spinable difference in the grades of cotton. Now, you take in the State of Texas, we are and have been up against the real thing. You take basis middling cotton that was worth 13 cents a pound, and you take basis low ordinary cotton as only worth 6½ cents, market to market quotations, and you have a very wide range of price, and as factors, or as men who are in the habit of receiving cotton and storing cotton for the farmer and advancing money at a low rate of interest, when those differences are so wide as they are at the present time, we are up against it as a proposition, and the cotton men are up against it to know just exactly what amount to safely loan on that cotton.

And the other difficulty that this committee or any committee formulating any bill or the working out of any plan will be up against, will be the fixing of the differences between the grades.

Now, you take as a concrete illustration: A man who starts to bale cotton and classes it, we will say, as middling cotton, considers just two things—the color and the absence or freedom of foreign matter in the cotton. He pays very little attention to the tensile strength or the length of the staple. In our corporation we find it pays us, in order to get the best results out of our cotton, to send right across to Liverpool and get a man who is actually pulling the staple and delivering it to the Manchester cotton mills to come over here. We can pay his expenses over here, we can pay him a good salary, because we can get out of the cotton something that the market quotations never reveal.

Now, the man who sets to work to put a standard or a price or a value upon a bale of cotton is a man that can to-day, with the vested interests, command a very large salary, and in working out these principles of standards you will have to get men who are thoroughly capable and able to put that proper value on the cotton.

We will take the methods that we adopted in the State of Texas. A farmer, in selling his cotton, brings it down to the market. There is no market; there is no value for cotton—that is, no real value for cotton. The farmer ships down, we will say, 30 bales to us. He wants to sell it to the very best advantage, in order to get the most money out of it. We take samples from the 30 bales, and we spread them on the table, and we invite buyers to come in and look at those 30 bales and pay us a price for that cotton.

Now, the buyer, who represents some exporter, will probably find that in the 30 bales are 10 or 11 bales of desirable cotton, cotton that he knows where to place at a very good price, which is knowledge unknown to the cotton factor and to the man who actually owns the cotton. He simply says, "I will give you 9 cents a pound for that cotton," or approximately \$45 a bale. He knows right there that he can place, we will say, 11 bales of that cotton at 15 cents or 16 cents a pound. He takes the residue of the 30 bales and puts it aside, buys other cotton and reassembles and regrades it until he has a desirable grade of cotton, even running grades, that he can ship to the various interests with large profits to himself out of it. That is where the real money is made in the handling of cotton. It is not so much in

getting the price basis by way of middling, and so forth, revealed in the market quotations of the world, as it is in his expert knowledge of knowing where to place that individual bale of cotton. He says, "I have a bale of cotton here," and he pulls it and says, "I know that bale will go to a certain mill in Manchester," and although you might have graded that bale as middling cotton and worth 13 cents a pound, we will say, in Galveston, and with natural expenses could be sold at a profit at 15 cents or 14.75 cents in Manchester, he says, "There is a certain mill that will give me a large premium for that bale of cotton," and in consequence of his expert knowledge he is able to take that and make money out of it.

Mr. HELGESEN. You can never correct that by legislation, can you?

Mr. ST. CLAIR. You can not correct that by legislation except in this way; that in the employment of men who do standardize cotton, they ought to be paid salaries sufficient for the knowledge they have obtained through experience, to actually get down to the real factors of the value of that cotton.

Mr. HELGESEN. But you were saying this advantage did not lie so much in knowing the value of the cotton as it does in knowing where to place that particular bale, and, of course, no man could know that except some one who is in touch with the trade.

Mr. ST. CLAIR. That may be true, but, on the other hand, the fact is we know certain districts and certain mills require certain classes of cotton, irrespective of color or of grade, so far as freedom from foreign matter is concerned.

But what I want to impress upon the committee is the absolute necessity of fixing the spinable differences in the grades of cotton, also to go back to the emergency matter before us, and we are up against it in the State of Texas, and that is this, that we have actual cotton opening and which is being presented to us for handling, and we do not know how to handle it, and we must have some relief immediately. We must take the warehouses that we have available and put them in such shape that people storing cotton in the warehouses that now actually exist can have a form of receipt issued for that cotton upon which anyone can safely loan money, and, of course, the form of receipt that I advocate and that we as a corporation advocate, is this, which is a per bale receipt—one receipt for each bale of cotton, which designates actually the condition of that cotton, so that when that cotton is offered for sale there is no need for substitution or alteration, and you have an original document; in other words, to make the collateral as unimpeachable as possible.

I have talked this matter over with bankers in the North and in the South; and long before this matter came up they said, "I want you to present me a form of receipt which in itself is a good collateral, collateral that can not be impeached, so that we will not have to pay any attention to the person issuing the receipt. In other words, gentlemen, the money that has been advanced on cotton by the bankers who have loaned money on the cotton in the South, has not been loaned so much on the cotton itself as upon the responsibility and the integrity of the man actually borrowing the money; and we must get down to an actual basis where the cotton will in itself be good and sufficient collateral for the money borrowed upon it.

The CHAIRMAN. How would you work that out, Mr. St. Clair?

Mr. ST. CLAIR. We have put it to a practical test and have found that the bankers of our State are willing to accept our receipts, because we have stated in our receipt that a certain bale of cotton bears certain marks, it is of a certain grade that we ourselves have put upon it, in the absence of any other outside agency, and the weight; and the receipt itself bears on the face of it the maximum charge that bale is subject to from the date of the issuance of the receipt.

Mr. ANDERSON. The maximum charge for what? You say it bears on its face the maximum charge. What do you mean by that?

Mr. ST. CLAIR. Well, for storage, for insurance, and for the handling of the cotton. We as a corporation guarantee the insurance for the full market value of the bale of cotton.

You must remember, gentlemen, that we are simply a unit. Although we are a corporation, we are simply an individual, and we had to adopt plans and reduce them to a workable basis, and in our endeavor to arrive at some perfect plan we have evolved from the old system something that would be satisfactory to the people shipping this cotton and at the same time satisfactory to the banks proposing to loan us money, or loan our members money, on these receipts; and we have had facilities for handling quite a large quantity of cotton; and I can present to you telegrams that I have received since I have been here from people from all over the State of Texas, in which they propose to send cotton to us provided we can fall in line and give them some idea as to what amount of money, in percentage, can be loaned on those receipts. In other words, as to the cotton itself, that we would put it in a safe and secure place, where the bale will not be subject to depreciation due to the exposure of the bale to the weather, and at the same time they want to know approximately what that bale of cotton is going to cost them for the storing and handling of it.

You can get practical men together and evolve some system that will meet the emergency and that will probably have to be changed as conditions change, but at the present time I believe that with the facilities already existant in the State of Texas we can care for a good deal of the surplus stock of cotton in Texas in the way I have suggested.

If any members of the committee want to see documents that we are in the habit of using I have some at the hotel, and I will be very glad to answer any question or to give you the result of our experiences as a corporation, and my own as an individual, so that we can arrive at some concrete, workable plan, by which the South can be relieved of the present situation.

Mr. HELGESEN. Let me see if we understand what you mean by what you call the vested interests. Will you explain what that is?

Mr. ST. CLAIR. I mean this—and I expect you know exactly what I mean before I express myself—that every man who has the means, or who has money invested in the transaction of any business, with his plans laid, as soon as any new plan is put into operation that will cost him a personal loss or personal inconvenience, is not going to care a bit for the rest of the world, but he is going to fight it tooth and toenail. That, gentlemen, is what I mean by vested interests.

The CHAIRMAN. Is there anything further, gentlemen? If not, Mr. St. Clair, that is all. We are very much obliged to you.

Mr. WATSON. Mr. Hughes, of Georgia, has come in. He is the assistant commissioner of the State of Georgia.

Mr. HUGHES. Mr. Chairman, I believe I have nothing to say right now. I am trying to learn and would rather not say anything.

**STATEMENT OF MR. E. J. WATSON, COMMISSIONER OF AGRICULTURE, STATE OF SOUTH CAROLINA, PRESIDENT SOUTHERN COTTON CONGRESS.**

Mr. WATSON. Gentlemen, in coming here at this time we only come here because of the war; we only come here because, for the first time since the Civil War in this country, cotton has not been able to take care of itself.

We regard cotton as America's greatest asset, and not merely as a southern proposition. If you will look at the map you will see, now that California is coming in, that all of the lower half of the United States is engaged in the production of cotton.

Cotton is absolutely the only indestructible product of the soil. Cotton has always been classed as a commodity, and the trouble that brings us here now is the very fact that cotton is as yet classed as a commodity, whereas, as a matter of fact, cotton is more of a security than a commodity. What I mean to say by that is that cotton can be harvested to-day, ginned, baled and properly put away, and 50 years from now, whatever the market may be at that time, that cotton is just as valuable as it is to-day. There is absolutely nothing in the world with which you can do that except cotton. A few days ago I saw a bale of cotton which was put up 52 years ago, and just before this recent war broke out was put on the market perfect in staple, perfect in color, perfect in tensile strength, and sold for 15 cents per pound.

Now, with cotton in that condition, we believe that it is, as I said, the Nation's greatest asset. Why? Because it is the only thing we can send every year from the United States Government into the markets abroad and bring back a stream of gold, upon which American finance is based. We all know that it is a fact that that commodity, that security, is jeopardized because the South, with her banking system, and on account of the interregnum between the banking systems of the Nation, is absolutely unable to take care of that asset, and it is liable to be sacrificed, and if it is sacrificed that means, gentlemen, that our balance of trade by spring will be absolutely gone, and that \$600,000,000 that comes across the ocean will not be coming, and that you are going to be swamped in war taxes.

Mr. ANDERSON. Is it your expectation that there will be no exportation of cotton?

Mr. WATSON. Any exportation?

Mr. ANDERSON. Yes.

Mr. WATSON. No, sir; not by a good deal.

Mr. ANDERSON. What is the normal export now?

Mr. WATSON. The bulk of the crop is exported—about 65 per cent.

Mr. ANDERSON. How much would that probably be decreased, if you could estimate?

Mr. WATSON. I suppose it could be decreased at least 3,000,000 bales before you can catch up in any way, shape, or form.

Now, gentlemen, we have not come up here trying to beg the Federal Government. We believe that anything that is a basis in this country for maintaining the balance of trade in favor of this country, such as wheat or cotton, is something the Government, through its national banking system, ought to do in a business way to protect, in order to protect the man back on the farm. We believe that anything now that may be done short of reaching the farmer, back through the small bank and taking care of the man who is going to be forced to try to pay his debts or to have his property foreclosed in the fall, will fail in its purpose. Heretofore, whenever we have been in trouble with cotton, like 1911, for instance, we have been able to take care of it by artificial means. There has never been the necessity and there has never been an experience just exactly like this we face now.

I have been in Washington since Sunday morning early. I think I violate no confidence when I say I have been in consultation with the Secretary of the Treasury, the Comptroller of the Currency, the members of the regional board, and members of the Finance Committee of each House, and a number of Members of the Senate and the House, and that they are working hard to try to get something that can be presented to Congress that will be a business-like method of saving this national asset. I think the scheme that will be finally evolved will be one that will meet the approbation of the entire Nation. Whatever you do, however, must go back to the beginning. We must go back, and whatever is done must be done either through the regional bank system or under the Vreeland-Aldrich bill, which, after proper amendment, must be passed, as your chairman properly said a few moments ago, way back to where that bale of cotton is offered for sale in the local market. Under present conditions we simply take our cotton—in the first place, with the average farmer anything that grows on a bush and is white is cotton. That is all he knows about it; all he has ever been taught to know. Probably it is the fault of the United States Government; probably it is the fault of the State government—I do not know—but it is a fact that he does not know what cotton is except that it is something white on a plant. With the farmer in that condition, he takes his cotton to the cotton buyer in his town. That cotton buyer is out for business and profits. That cotton buyer, ninety-nine times out of a hundred, will undergrade that cotton so that he himself has not only a safe margin, but a nice margin of profit when he turns it over to the next man. Mr. Lever's bill, as I take it, makes it possible for you to require that local buyer to be a man licensed by the Federal Government, and under penalties to the Federal Government if he is dishonest or if he misgrades that cotton one iota.

Mr. ANDERSON. I do not think that is correct.

Mr. HAUGEN. Not the buyer, but the classer.

Mr. WATSON. It may not be there, but it ought to go there. It ought to go down to the small buyer and make him a responsible man, because most of that cotton is destined for export. It is not only an interstate proposition but it is an international proposition, and no certification that an independent warehouse or a State warehouse could give it would have any more standing in the markets of Europe than if you or I or any individual should sit down here and

draw up a certificate for him. Therefore, at the very beginning that cotton should start out for exactly what it is.

Now, gentlemen, I do not say that idly. I spent nearly a year in the European mills. I have talked and worked with over 250 European manufacturers, and I have had them tell me if anybody in America could guarantee the quality of the cotton so that if a man wanted 28 millimeters in length they could assure him that he could get 100 bales of cotton exactly of that length of staple and the tensile strength required, they preferred to deal directly with the farmer.

MR. HAUGEN. You know on that proposition you must have your grades based upon what my friend over here calls the spinable value.

MR. WATSON. Yes.

MR. HAUGEN. As I understand it, the present grades are based on color and length of staple, but do not take into consideration the spinable value or textile strength or anything like that.

MR. WATSON. The very fact that it never has done that, the very fact that the mills wanted cotton graded on the spinable value, is what brought about the organization of the Bremen Cotton Exchange and the establishment of their sorting warehouse. They could get an honest cotton and know what they were buying. The fact that theretofore they could not get it led to the establishment of the Bremen Cotton Exchange and the Bremen sorting warehouse, where that cotton is put through tests day after day as to tensile strength, length of staple, and every other requirement necessary in making up the spinable qualities.

I am frank to tell you the European mill pays mighty little attention to the color. I have with my own eyes seen cotton buyers down in South Carolina, who did not know any more about cotton than a bellboy at the hotel here in Washington, who would knock off two or three grades because, perchance, some man had spit some tobacco juice on the side of the bale when it was on the way to market. I have had some men tell me, in buying long-staple cotton, that unless they could see a margin of 4 cents and sometimes 5 cents a pound on the transaction for themselves they did not care to handle it.

Now, gentlemen, if, therefore, we are going to reestablish the quality that goes into the markets of the world and make it a standard grade, we have got to come to a standardization, come to an intelligent standardization that will be uniform throughout the United States. Some one might raise the point, which is very likely, that the Texas cotton, or the North Carolina cotton, or the Alabama cotton, or the Oklahoma cotton is different in certain characteristics. That is absolutely true, gentlemen, but it is an easy matter to take your standard grades and apply them to each State and mark your bale "North Carolina," "South Carolina," "Georgia," "Texas," "Oklahoma," or whatever it may be, and the people on the other side will take care of that part of it. It will make no difference there.

Now, that is the situation over there. We have got to start back to where Mr. Lever is moving with this bill right now.

Another thing: If you let the New York Cotton Exchange and the New Orleans Cotton Exchange reopen right now, and the Smith-Lever futures bill not be in effect, and these standards not be in effect, you will have an upheaval in the cotton markets, gentlemen, that will drive the cotton, in spite of anything you can do by ma-

nipulation, down to possibly 4 cents or 5 cents; and when you once get it there it is going to be the very mischief to get it back. One suggestion that I would make is that when you pass this bill (as early as you can) you fix it so that it will become effective immediately upon its passage, with a proviso that any contracts existing on the day of the closing of the exchanges would not be affected by it.

Now, we are up here to-morrow to try to do what we can to look after the formulation of the next logical step. If we are going to make cotton a basis of security, a basis of credit, convert the commodity into security, since the cotton itself can not be put in bank, we have got to put it there on some kind of paper that will be negotiable. There is nothing in the currency laws now that will enable that very thing to be done, so far as I know. Therefore we have got to store cotton in a safe place, with ample fire protection, with ample and proper insurance, and in warehouses that will be standard and under control.

Now, we expect to-morrow to launch a movement at the meeting of the Southern Cotton Congress, while this thing is pinching us, to try to undertake the building throughout the South almost immediately of sufficient warehouses to take care of any future situation that might arise. We can not build warehouses, however, quickly enough to take care of this situation right now. We are making a census now of all of the warehousing space in the South, and all we can hope to do is to take what existing warehouses we have and start with them and organize them, and get the textile plants to turn over to these warehouse companies already organized their warehouse room, to use that, and, if we have to, use temporary warehouses, pay the extra insurance that will be required, and rush those up in a hurry. The fact remains, therefore, that this year we have to take care of 3,000,000 bales, and we can not build warehouses fast enough. I understood Mr. Lever to say that he is introducing a national warehouse measure, which will be a far better plan than any independent or State undertaking that can possibly be done. If you do no more, gentlemen, than to throw the cloak of the Federal Government around those warehouses so as to give them standing in the markets of the world, you will have done a world of good to the southern farmers.

Mr. ANDERSON. Has anything ever been done toward establishing a uniform receipt in the South—uniform warehouse receipt?

Mr. WATSON. No. The best receipt I have seen, sir, is the receipt which I will show you here. This comes nearer to being an ideal warehouse receipt, with insurance certificate attached, than anything I have ever found, and that receipt has been taken in New York and in Boston and elsewhere by bankers without any question whatever.

Mr. ANDERSON. Do you not think that some legislation would need to be adopted requiring some uniform receipt if you are going to get anywhere on this proposition?

Mr. WATSON. Oh, absolutely. There should be Federal control, and the receipt should be absolutely uniform. The receipt which I have shown you is a workable proposition, and is as good as any I have seen anywhere.

Now, gentlemen, we have the warehouse proposition in hand, and that looks partially into the future. We have got the next logical step. The main thing now, however, is what are we going to do right

now? I think I have tried to show you here that we can not care for the situation, and that we are not begging for ourselves alone, but we are begging on behalf of the whole Nation. We are not asking you for cotton valuation. I do not want the United States Government to undertake to fix any amount, so much per bale, to be given. I do not want to see you violate the United States law one iota. I want to see you send sufficient money, in a legal way, down into the South, to take care of the situation until conditions readjust themselves, and then withdraw that, and do it as quickly as you can. The banks in the South are not in the shape that the banks in the North are. We are, under both currency acts, as they stand right now, not in a position to avail ourselves of the funds that are available through the Secretary of the Treasury, under the Vreeland-Aldrich Act. We are not in a position to get that. A great many of our banks are not even in position right at this moment to come in under the regional bank provision. Now, that simply means that something must be done there for the time being to get that in hand.

The general proposition that I was authorized by some of these gentlemen to present to you, inasmuch as you are discussing what ought to be done, I was asked by some of the gentlemen that we have been in conference with to-day to state to you in this way:

The Federal Reserve Board should organize at once and, as soon as organized, announce that the regional banks located at Richmond, Atlanta, Dallas, and St. Louis will be required to discount for member banks paper secured by cotton properly warehoused and insured, and that such paper shall be subject to renewal from time to time until the European demand for cotton is revived; that the Secretary of the Treasury can deposit some form of bank note with the regional banks and take as security for said deposits this paper secured by cotton.

If some such plan is adopted at once by the Government it is exceedingly probable that it will, to a great extent, counteract the effect of suspended exports which are now confronting us, and when the world's markets are reopened for cotton the cotton thus financed can be sold at remunerative prices and the paper secured by it retired.

Now, gentlemen, that would call for certain action by Congress.

Mr. ANDERSON. This committee would have no jurisdiction to report a bill amending the Federal reserve act.

Mr. WATSON. I understand that, and I only mention this because you gentlemen have been asking the question to-day as to what could be done, and I thought I would give you that general idea of what most of us think is the only thing that can be done. We do not want to ask the Federal Government to just put out so much money to be loaned in an irresponsible way to anybody that may come for it. We do not want that.

Now, gentlemen, if that can be done, you can get your measure adopted that will begin to restore confidence in the cotton markets of the world, I believe the war will have been a good thing for us American people. I hear it said that conditions are going to pass away entirely; that exports are going to be reopened. There seems to be no doubt that if England is able to do it she is going to try to remain the mistress of the seas. If she is, everybody knows that England is going to try to keep the sea open, and that she is going



to try to move American cotton, if she has got to do it with warships to guard it, to keep her spinning mills running.

So far as Germany is concerned, she is closed absolutely, and the Austrian mills have closed, and the Belgian mills have closed, and the Bohemian mills have closed, and the French mills will very likely be closed and remain closed indefinitely.

Mr. ANDERSON. Have you any statistics showing the approximate amount of cotton that was taken by each one of those countries?

Mr. WATSON. They were given by my friend yesterday. The bulk of it goes to England. Japan may take a little more this year. On the other hand, a great many people say now is the golden opportunity for the textile industry of this country. We must not forget the textile industry. The textile industry is in just as bad a fix in New England as the cotton industry in the Carolinas. So it is the golden opportunity for us to go in and de-Germanize the markets of South America. We can not do it under present conditions, in the first place because these textile plants can not get the labor, and in every single State there is a 60-hour-per-week law that is in force, and if they work their laborers any longer than that they will have the State law down on them. So they can not meet the normal European competition.

Another phase of it is the jute situation. That market is being closed in New York. A few days ago the price went out of sight. An opportunity is there for our textiles to increase the American consumption somewhat by creating a demand for coarse goods manufactured out of cotton for ordinary bagging, etc., and some orders were placed in New York a few days ago for that purpose.

As to our getting into the markets of the South now, until the United States can work out some practical way of getting bottoms to haul the material and get it into the markets of South America, you could not get there anyhow, and if you did, according to advice I had from New York last night, it would necessitate Federal marine insurance in order to do that. Another phase of it: We have some mills in South Carolina that have been operating on Bolivian contracts. We have been fulfilling contracts there very satisfactorially for about a year—good contracts. On Saturday last a telegram came from there canceling those contracts on the ground that they were not able to meet their obligations; that Bolivia, with her copper, etc., was dependent upon the markets of Germany; that the markets of Germany were closed, and Bolivia is out of business. How far that extends, and what else is going on I do not know. All these are just little insights into the situation.

Another phase of the thing that requires help through the banks—and it can only be given help through the banks—is the cottonseed situation. I have heard nobody here as yet mention cottonseed. As a matter of fact, cottonseed is one of the most valuable of all of our products of cotton. It is the only thing about cotton that you can not store and you can not keep, and if you go ahead and gin the cotton and try to pile the cottonseed it is going to heat and burn up or rot, one or the other, because of congestion of transportation. That industry is dependent almost entirely upon Denmark, Norway, and Sweden. Everybody knows that the North Sea is closed and full of floating mines. We are going to try to help that situation

as far as we can by getting every man who possibly can in the South who can hold his cotton seed at all to hold it in the cotton and not gin it. In other words, we are going to try, if we can, to take care of 3,000,000 bales that way—take care of the seed in the cotton, so that the seed will come out uninjured, and upon the resumption of normal conditions can go into the market.

Mr. HELGESEN. Could that not be held as oil?

Mr. WATSON. I doubt it very much. They have not the tankage-storage capacity. Most of these mills are small and have just enough tankage capacity to store between shippings. I know of no place where we could get tankage now to hold the oil. At first they thought, Denmark and Sweden not being in the war, that they would be able to dispose of the cottonseed, but England notified the world yesterday not to allow any ship to approach the North Sea because it was full of floating mines.

There is the situation as we see it, and I only gave it to you gentlemen because you have manifested so much interest in the cotton situation here, and I want you to see and understand that we are not up here in the nature of beggars, nor have we come here to try to bulldoze anybody or anything like that. All of these gentlemen who are coming here from the Southern Cotton Congress are men who have come more from an altruistic spirit than anything else. They are coming here for the good of the South first, necessarily, and for the good of the Nation second. We hope to have you all in the Congress with us and hear the cry that comes directly from the cotton belt.

I have two telegrams here addressed to Mr. John M. Parker, of New Orleans, who was called home, and he asked me to read them to this committee to-day.

This is addressed to Mr. Parker:

Urge you to use every effort to enforce suspension future business, also passage Smith-Lever bill. Think this the only safety for the protection of cotton market, also in keeping out all manipulative tendencies by operators.

That is signed by H. C. Ludlow, who, I understand, is one of the largest individual planters in the South.

The other one is also addressed to Mr. Parker, and says:

We urge you to bring all possible influence to bear for passage of Smith-Lever bill before exchange reopen to go into immediate effect. As cotton planters we consider the passage of this bill of prior importance to all other measures. Financial aid will avail little if New York is permitted to manipulate the market as in the past.

That is signed by Richardson & Myland Planting Co. (Ltd.), New Orleans.

Now, gentlemen, I have probably taken a little too much of your time. I will say that we have been in fairly close touch with the new regional bank reserve board. We find that they are very sympathetic and are anxious to take care of not only cotton but wheat and any other American staple in so far as power is given them by Congress to do it.

Mr. HAUGEN. Have you any information as to what the banks propose to do; how they propose to handle any money they advance on cotton?

Mr. WATSON. You mean the regional banks?

Mr. HAUGEN. Yes.

Mr. WATSON. No, sir; we have not at the present time. They only completed their organization to-day.

Mr. HAUGEN. Will they loan money on certificates or receipts?

Mr. WATSON. I do not think they can unless there is an amendment put through Congress allowing that, with a provision making the matter one of judgment for the members of the regional board. I think some provision like that will have to be put through in order to accomplish it.

Mr. HAUGEN. I believe some one stated yesterday that they proposed to loan at an interest of 5 or 6 per cent.

Mr. WATSON. I heard that statement, sir, but what it was based on I have no idea. The regional bank board, to my knowledge, has made no such statement whatever; and the truth of the matter is I do not think the regional bank board is in position at this time to say what they will do.

The CHAIRMAN. The fact is, however, they have that matter under consideration.

Mr. WATSON. They have it under thorough consideration now, and I think it could be said, so far as the regional bank board is concerned, it has announced its disposition to do everything in its power to take care of the market situation.

Mr. HAUGEN. You said in opening, that cotton was the only product of the soil that could be kept an indefinite time without material deterioration. I read in a journal not long ago that they had recovered some wheat that had been buried in Egypt for thousands of years, and still retained its germinating qualities.

Mr. WATSON. Wheat, properly cared for, in my opinion, is a mighty good proposition to loan money on, provided the loans on it are short-term loans that can be used to take care of deterioration. That is true of anything that would naturally deteriorate. I very frequently sieze and destroy corn in South Carolina that comes from your State of Iowa. It comes out of Iowa as No. 2 corn, and I know it was No. 2 when it came out of Iowa, but the deterioration had begun before it left Iowa, because of excessive moisture, and by the time it is hauled in hot cars down to my State it gets there low No. 4 and we have got to destroy it to keep it from injuring animals.

Mr. HELGESEN. We had some experts here at one of our hearings, and one of these men had samples of corn with him, and some of those samples seemed to be burned up, they were so black. I asked him if it had any value. He said based on a price of 70 cents for No. 2 corn in Europe they could get 48 cents for that corn that was absolutely black, for making liquor.

Mr. WATSON. If you want my opinion about that, I would say that the man who persists in drinking that and sticks to it for long is sure to die from the effects of it. The truth of the matter is that any corn that goes bad that way goes bad and forms what is known as ——— acid, which is one of the most deadly poisons known. I can take a pint of it and bring it before this committee and distil it and send you out to get some rats and it will kill them in a minute.

Mr. HELGESEN. All we had was his statement for it. He said they sold that corn; they never destroyed it, but sold it in Europe to-day at about two-thirds the price of No. 2 corn.

Mr. WATSON. We consume thousands of tons of corn in this country that your State of Iowa puts out that the Government ought not to permit to be eaten.

Mr. Chairman, if the committee would indulge us just one moment, Mr. Hollingsworth, of Georgia, would like to make just a little statement in regard to the relationship of the fertilizer mixing companies to the cotton situation.

In that connection, if you will allow me, I will say that in the last few days it has been developed that a new process has been discovered for the conversion of the hulls of the cotton boll into potash. Germany will not let us have potash this year, and we are on the trail of some potash despite the war.

The CHAIRMAN. We have enough potash out on the Pacific coast to last 2,000,000 years.

#### STATEMENT OF MR. W. B. HOLLINGSWORTH, FAYETTEVILLE, GA.

Mr. HOLLINGSWORTH. Mr. Chairman and gentlemen, I am merely an humble citizen of the State of Georgia, being president of the Georgia Mixers' Association, an association comprising about 60 or 75 of the smaller mixing plants—plants which mix fertilizer and which try to make the cotton grow.

I left the fields of Georgia on yesterday morning. I live in a small town. I am not a speaker, particularly, but I do wish to impress upon you the fact that the crisis is almost at hand. I visited some bankers in Atlanta on yesterday and the day before and the two banks of my home town, which are small institutions, and they say unless Congress comes now to the aid of the cotton man, who is about to harvest his cotton, and not wait some 60 days, but put it in some form that he can be assured now, in the very next few days, that in all probability our country will be panic-stricken. I understand in my own State, as I have been informed this morning, that planters who even wanted \$10 from a small bank had been refused. That is a deplorable condition. We can not stand for it.

Mr. HAUGEN. Banks are suspending payment all over the country.

Mr. ANDERSON. They are not making money payments anywhere.

Mr. HOLLINGSWORTH. You understand, gentlemen, that these are real necessities at this time. People have these little debts that they are almost compelled to meet.

Mr. HAUGEN. The situation is just the same all through the country. It is not confined to Georgia or to any particular point.

Mr. HOLLINGSWORTH. It seems to me if Congress would come to the aid of the people at this time with this emergency fund and could arrange some way whereby they could place it at 2 per cent, for instance, and send it out to these banks—which, of course, must be responsible—in such a way that it will reach the farmer at no great amount of interest, that he is the man that is going to be affected, and he is the man that is to be helped. It must not be centralized, gentlemen, at any one particular section. If you confine it to your regional bank reserves, I understand my State has something like 45, and it will not reach the people that fund is intended to help. It might be dished out to a few friends in a few locations, but it must reach the men the fund is intended to help. The bankers in the larger towns are going to expect aid and the bankers in the smaller

towns are going to expect aid, and they will have to have it in order that they may help the farmer. If you can place the valuation of that cotton at a certain price per pound—I understand that the Government has a type under which there are several grades—if they can certify that as to some one of these grades they will advance on this cotton 8 or 10 cents a pound, as has been suggested by the gentleman from Texas, I believe, and carry that cotton, or that part that must be stored, for not less than six months, it will help the farmer. I know the Government endeavors to make its loans from 60 to 90 days. But the bankers in our country, and the larger bankers, gentlemen, want a longer time than that in order to take care of this situation.

Now, about bonding the warehouses. I differ somewhat from the gentleman from South Carolina on the question of taking care of this cotton. Some of it is going to be moved. I think we can take care of this cotton and store it, even if it be baled. I am speaking now about the surplus. Bond these warehouses and carry these receipts direct to the bank and let the bank, if possible, loan the farmer 8 cents a pound on that cotton—and limit the rate of interest. If the bigger banks get it at 2 per cent they ought to be able to handle it for 1 per cent for their local distribution. The other banks, in all probability, will have to insure and store that cotton, and it ought not to pay such a large per cent of interest. When it is done that way it seems to me it will reach the man it is intended to reach.

Gentlemen, it is not a question now of a merchant marine, but it is the question of protecting the man who is going to raise this cotton. It is not a question of disposition in the future. We need this help now for our financial institutions—and I want to say now that I have not a dollar of bank stock—but unless the people get this assistance now it is going to be one of the greatest calamities that ever befell this country.

On the question of cotton seed, we can make that into fertilizer for use on our farms. They are more valuable to crush into oil and export, and to manufacture into meal and use for feed, but we have use for it in our fertilizer plants. But you can not do that with the cotton. You can not put it back on the ground, but the seed you can. There is where we need the help. Therefore, as I stated before, if we can have a reasonable amount of financial aid now—to-day—at a very low rate of interest, from the Government to the larger institutions, so that that money is not centralized in one location, but distributed all over the South, and not have a price of 6 cents in Texas and 8 cents in Georgia, or 8 cents in Texas and 6 cents in Georgia, but place a standard whereby the valuation may be uniform in all sections, I think we can work out a system that will be a protection to us all and a great protection to our country.

I thank you for the opportunity of making this talk.

The CHAIRMAN. We are very much obliged to you, sir.

#### STATEMENT OF MR. E. W. DABBS.

Mr. DABBS. Gentlemen, this condition confronts us in the South: Usually when the crop is ready for harvest our farmers have used their resources; they have used up all the money they have borrowed from the banks, and used up all the credit they have, and when they

begin to pick cotton it is necessary to sell immediately some of that cotton to pay for the picking of the rest of it. It costs about \$7.50 a bale to pick it, \$1.50 to gin it, and \$1 to \$1.50 a bale for bagging and tying. That is \$10 a bale they have to have in cash immediately upon putting the cotton on the market. If there is nothing done to enable the bank to advance this money on that cotton when we have gathered it we will have to practically give it away to get money to pick the balance of the crop, and there will be no money with which to pay debts. A good part of the crop is made by people who hire the picking done—quite a large part of it.

I just want to bring that matter to the attention of the committee. I want to say I hope I will have an opportunity to present that matter to the Secretary of the Treasury, and maybe to the Finance Committees of the Senate and House, because it properly should go before those committees, that we are in immediate need of these loans for that reason alone.

#### **STATEMENT OF DR. H. E. STOCKBRIDGE, OF ATLANTA, GA.**

MR. STOCKBRIDGE. Gentlemen, I know you have heard about all you feel disposed to listen to on the subject of cotton this afternoon, and I will endeavor to be very brief, and I will endeavor, further, to come directly to points raised by members of the committee in questions that have been asked, and will try to briefly answer those questions, so far as I am able to do so.

The first point I want to make is this: Cotton stands in a class by itself. The question has been asked whether if Congress undertakes to meet this emergency in connection with cotton it would not be equally justified in taking similar or corresponding action with relation to other agricultural products. I shall not attempt to answer that question, but I simply want to say that cotton stands in a class by itself, for three great economic reasons. In the first place, cotton is less subject to deterioration in the course of time than any other crop, and therefore stands by itself. Second, cotton is the great agricultural commodity on which the American people depend for maintaining their balance of trade. We have practically ceased to be a nation of wheat exporters. We have not ceased and probably never shall cease to be a nation of cotton exporters. It is the product of the southern cotton farms on which the American people as a whole depend for the supply of gold upon which the protection of their commerce depends.

The third point, which has not been brought out at all, is this, that the man who produces the cotton is situated differently from the man who produces any other great agricultural staple. In my State of Georgia 65 per cent of the cotton is grown by negroes, essentially tenant farmers and poor men. Probably nearly 60 per cent of the entire cotton crop of the country is produced by men who are negroes or whose agricultural methods, whose credit, and whose capital place them in the negro class. In that respect they differ from the producers of wheat or from the producers of any other great agricultural staple. They have no credit and they have no capital, and when an emergency arises, when a condition of war confronts them they are absolutely unable to take care of themselves.

Therefore there are three reasons which place cotton in a class by itself.

Now, then, it has been suggested by members of the committee that we people from the South interested in the production of cotton would do well to crystallize our ideas and come before the committee with specific recommendations.

So far as Georgia is concerned we are prepared to do that. We have not come here of a sudden with no developed or crystallized ideas to propose. In Georgia we were considering this proposition and endeavoring to formulate a definite and specific plan of action. Last week, Friday, on the last day of July, I was in communication by long-distance telephone and by wire with the Georgia Representatives and Senators in Congress urging upon them specific, definite, detailed action to meet an emergency now confronting not only the southern cotton grower, but the United States as a whole, and the plans that were proposed by bankers and producers and cotton men in Georgia have already been crystallized in the form of legislation which I understand the different Houses of Congress now have before them.

Now, then, you gentlemen ask, What do you want? I will endeavor, so far as Georgia is concerned, to meet that question and tell you what we want.

In the first place, we want cotton to be standardized. Why? Simply because we want to have the New York Cotton Exchange, which I will not say controls, but very largely influences, the price of our commodity—we want to have the future contract, which has been the cudgel held over our heads and with which the cotton producer of the South has been brained—we want that cudgel taken out of his hands, and we want cotton to be standardized, and we want the cotton-futures market so placed under control that when this crop finds a market its value in that market shall not be controlled by speculators on the New York Cotton Exchange. That is the first thing we want. We want standardization and control of the future cotton market.

The CHAIRMAN. On that proposition, do you think that the standardization of cotton will control the contract in the exchanges in such a way as to take the cudgel out of their hands?

Mr. STOCKBRIDGE. I think it will go a long way. I do not think that will be the only thing, but I think it will go a long way.

The method adopted by the New York Cotton Exchange—and it is quite different from the New Orleans Cotton Exchange—the method of classification and standardization—it is not standardization at all, it is classification—in vogue in the New York Cotton Exchange has been introduced and adhered to and put into practice for the purpose solely of controlling the cotton market to the detriment of the cotton producer. I think we all understand that. Cotton producers do, anyway. We want that cudgel taken out of his hands, and I believe that the most effective means for taking that cudgel out of his hands is to take away from him his present classification and give him a legal standardization.

The CHAIRMAN. I agree with you fully on that.

Mr. STOCKBRIDGE. Now, then, we are asked, What next do we want? We want to have the act of Congress provide means so that when the market is found our commodity can be taken to that mar-

ket. It is of absolutely no avail to the cotton producer of the South if cotton is theoretically worth a certain price and we have the cotton ready for shipment, if the market exists in England and we have absolutely no access to that market. We want, gentlemen, to have you devise some means by which when our cotton is ready for market it shall have access to the market, and that means we want to have some means devised—and that is for you to work out—whereby our cotton can go to market sailing under the Stars and Stripes, instead of sailing under the flags of other nations.

That is the next thing we want.

Then, what next do we want? We want to have you, in your wisdom, devise means by which the producer of the cotton, the poor man at home, who has grown 8 or 10 or 12 bales of cotton, who has maturing obligations which he must meet with his banker and with his fertilizer manufacturer and with the factor and with his other creditors provided with cash whereby he can meet those obligations. In other words, we are not interested in the financier nor in the great central bank nor even in the small bank. The man we are interested in is the poor man, who suffers most under present conditions, because he is not able to meet his obligations. The one-horse farmer is the man we want to be helped. How?

Now, gentlemen, we have pretty high ideas along that line. We do not come here with our pockets full of laws we want to have passed. We have no expectation of your being able to meet an emergency in a few hours' time by passing absolutely new legislation. We believe that the machinery is already in existence. What we ask of you gentlemen is to touch the button and set it in operation. We believe that the new currency bill, when put into operation, will provide the means necessary to furnish capital for the financing of this crop. What we want to be provided with is this: That when the small farmer, producing a few bales of cotton, must meet his obligations, we want to have him to be able to go to his little local bank with \$10,000, \$15,000, or \$25,000 capital and get money on his cotton as security. The details have already been discussed. We want a warehouse receipt—a negotiable warehouse receipt; we want insurance, not on the cotton in bulk, but on every individual bale, so that the warehouse receipt covers the individual bale and the insurance on that bale, so that the local producer can go to his own little bank and there get the capital with which to meet his absolutely imperative demands or requirements. And we believe that if the new currency law is immediately put into operation—it will require, we understand, some amendments—all the machinery is in existence. We believe that if State banks are admitted to the advantages of the regional bank system and can take these cotton-warehouse certificates and use them as collateral, they can get money from their local banks and the local banks can indorse the notes given them with this cotton as collateral, take those notes and turn them in to the central banks, and then to the regional bank, and then get a fresh issue of currency, which shall, in the channels of commerce, find its way back into the bank where the commercial paper started and shall meet the demands of commerce.

That, in brief, is what we want. I believe legislation looking to that end has already been introduced, that you gentlemen have measures directed to that end already under consideration.



Those are the things we urge upon you, not to try to start in and provide new legislation, but to attempt to put legislation already in existence, with perhaps some modification, actually into operation. That is what we want to meet the war emergency, and if there were any reason why these conditions should not be met, why, perhaps, some Member of Congress should object, we urge that this is a war measure, an emergency existing simply and solely because of the war.

Mr. HELGESEN. You say it is a war measure. Is it your idea to make this legislation temporary, like the Vreeland law, to expire at a certain date, or to make it permanent?

Mr. STOCKBRIDGE. I think it would be best to be made temporary. In other words, I think it should be in existence so that it could be fallen back upon, but its operation, I should think, should be temporary.

I thank you, gentlemen.

The CHAIRMAN. We are very much obliged to you, indeed.

Is there anything further, Colonel?

Mr. WATSON. I think that will be all, Mr. Chairman, and I want to take this opportunity to thank the committee on behalf of all the gentlemen here for the patience with which you have listened to us; and we request you to be with us to-morrow or the next day, when you can hear what our people from the cotton-producing sections of the country have to say about the present situation.

The CHAIRMAN. The committee has been very glad, indeed, to have the ideas from you gentlemen.

Now, it is our understanding you desire to be heard again on Saturday morning.

Mr. WATSON. Not unless it is the desire of the committee. If there are any points that you would want any information on in any way, shape, or form, from any one of these gentlemen who will be here to-morrow, I would be very glad to have four or five representative men come in and confer with you.

The CHAIRMAN. Very well; we will keep in touch with you, and if there is anything we want we will let you know.

The committee will adjourn.

(Whereupon, at 4.15 o'clock p. m., the committee adjourned.)

(Hon. K. D. McKellar was given permission to print the following letters in the hearings on this bill as part of the record:)

HUMBERSTONE CLUB,

Port Colborne, Ontario, August 8, 1914.

HON. K. D. MCKELLAR,  
Washington, D. C.

MY DEAR SIR: Unless some plan for the relief of the cotton planters of the South is arranged there will be widespread suffering in the South. The cotton crop, which will probably be about 14,000,000 bales, and under normal conditions worth at least 12 cents per pound, will not during this European war bring more than 6 or 8 cents, and it probably cost 11 cents per pound to produce it. I have seen in some of the papers that some of our southern Senators would try to get the Government to furnish a fund to lend to the planters on this cotton, say, at \$40 to \$50 per bale. I have for several days thought over this matter and think the Government would be absolutely safe in furnishing this money and hold the cotton as security. Suppose the Secretary of the Treasury was required to furnish \$300,000,000 to \$500,000,000 and this could be loaned to planters on cotton at \$50 or \$4 per bale. Let the borrower store his cotton in a bonded warehouse and turn the receipt therefor into the bank (acting as agent for the Government), which would be held to secure the payment of the

borrower's note six or eight months after date with 6 per cent interest. The bank requiring the borrower to sign a written agreement that in case the war in Europe was still on at planting time next spring that he would cut down his acreage one-half. At \$40 per bale loaned on, say, 8,000,000 bales would require \$320,000,000. The spinners in the United States would take probably 5,000,000 bales, and some foreign countries might take one or two million bales. Then the planters could hold the crop for not less than 12 cents, and the spinners in our country would have to pay it and would gladly do so. I do not know what are the best details, but some plan might, I think, be put in operation by which this amount of money could be loaned to the southern people on absolute security and returned very soon after the war closes.

The planter can not pay his debts unless he can sell his cotton; the country merchant can not pay his unless the planter and laborer pays him; and, in turn, the retailer in the country can not pay the manufacturer or jobber in the cities, and the manufacturer and jobber can not pay the banks and others they owe. Hence you see business all along the line will be paralyzed, and bankruptcy will be the fate of hundreds and thousands of people in the South. I hope you will think of this and see what can be done by Congress.

Very truly, your friend,

J. M. GEORDBON.

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THE COMMERCIAL APPEAL,  
Memphis, Tenn., August 7, 1914.

HON. K. D. McKELLAR,  
*Washington, D. C.*

MY DEAR MR. McKELLAR: I should have answered your telegram early to-day, but the hours have been rather crowded of late.

It is not a question of shipping the cotton to Europe. The thing of supreme importance is to get a fair price for the cotton. If the sea was wide open now I doubt if cotton in Europe would fetch as much as 5 or 6 cents a pound. What we should do is to hold the cotton until the war is over and then sell it at a normal price. Here is my plan briefly:

Let the Government bond warehouses at the concentrating points, such as Memphis, New Orleans, Vicksburg, Mobile, Montgomery, Macon, Augusta, Savannah, and Wilmington, N. C. On the west of the river the concentrating points could be Little Rock, Oklahoma City, Dallas, Waco, Houston, and Galveston. This cotton could be stored in warehouses, even in warehouses in the vicinity of the concentrating points. The holder would get on the cotton a certificate like a warehouse receipt. That certificate would certify as to his bales and the class. On this certificate the cotton currency could be issued up to, say, 12 cents a pound, middling. The cotton would be pledged, then, to retire the currency. Let the Government also fix the arbitrary price of 12 cents, middling, below which cotton should not be sold to domestic consumers. As soon as the war is over, or when the world market is willing to pay more than 12 cents for the cotton, it could be sold, and as fast as it is sold the cotton currency could be redeemed. In other words, this is merely the Government taking over all the cotton as a trustee and holding it for the account of the growers.

I believe the plan is simple, but it is big. Every bale of cotton can be identified. It is easily insurable. It does not perish. Under normal conditions, if we had not had the war, cotton this fall would easily fetch 13 cents a pound. The crop is short. It will not be over 14,000,000 bales. There would be little chance of the Government losing on the investment. It would be just as bad to give away our cotton as to sell for 5, 6, or 7 cents a pound. People might say if you do this for cotton why not do it for wheat. Cotton is the one product which every year brings gold back into the country. Cotton is more easily convertible into gold than any other product. Cotton does not perish. Every bale of cotton can be identified. America more nearly controls the world's supply of cotton than does any other country control the world's supply of any other product. For instance, the world could get along without the United States wheat crop. Russia, Argentina, and other countries could supply the shortage. But the world could not get along without the cotton crop of the United States.

Brazil handles her coffee much in the same way, but Brazil was less able to valorize its coffee than we are to valorize our cotton. We more nearly control the cotton supply than Brazil controlled the coffee supply.

When I say 12 cents a pound minimum, I mean a basis of middling. Low middling and ordinary would only be guaranteed for the difference that is usual in price. The logical reason for all this, my dear Mac, is this: The value of cotton this year is easily above 12 cents a pound. The excuse, then, for the Government acting is that it is merely serving its people by keeping the price somewhere near value. The Government would easily have the matter closed out within six months, because, I believe, that the war will be over very shortly.

I would suggest that you come in contact with one of the South American commercial agents, especially one from Brazil, and he could explain exactly how Brazil valorized its coffee.

Yours, very truly,

C. P. J. MOONEY.

GULF COMPRESS Co.,  
Memphis, Tenn., August 8, 1914.

MR. JAMES F. HUNTER,  
Vice President Mercantile National Bank, Memphis, Tenn.

MY DEAR MR. HUNTER: I take pleasure in complying with your request for suggestions as to the financing and handling the cotton crop.

The smallest unit the United States Government should recognize would seem to be its regional banks.

The smallest unit that the regional bank should recognize is its correspondents, namely, the national and State banks, which have signified their willingness to cooperate with them.

The unit the National and State banks should recognize is its customers and owner of the cotton.

Warehouse cotton receipts. The system of issuing warehouse cotton receipts in Memphis, and elsewhere, is now carefully safeguarded by the banks and others. This makes the receipt good collateral security.

If any serious question of title to the cotton should arise, that it seems to me can be covered by a certificate of the borrower, showing his equity, or by the borrower rediscounting the paper of the owner of the cotton. A certain solution would be to have the warehouse cotton receipts issued in the name of the owner of the cotton, and require the owner to indorse them for collateral security, but this would be the more troublesome alternative.

There is an old seizure law on the statute books in most, if not all of the cotton-growing States, for protection of the landlord against a dishonest tenant. The number of bales seized under this law during the past 25 years is negligible. The southern banks in making loans on cotton are not giving themselves any concern over this old law, eastern and western capitalists, however, have at times appeared to be somewhat afraid of it.

The indications now are that a conservative estimate of the cotton crop, season 1914-15, is 14,000,000 bales.

As to the distribution of these 14,000,000 bales of cotton, after communicating with interested parties here and at 14 other points where we are warehousing and compressing cotton, I have reached the following conclusions:

	Bales.
American mills will take.....	6,000,000
England, with naval success, should take.....	3,000,000
Assuming that the English fleet is going to be successful in holding the German Navy in check, Russia will be able to import her requirements, of about.....	750,000
With the continuation of neutrality on the part of Italy, she will be able to import.....	900,000
Add for Canadian and Japanese mills.....	750,000
Spain, Norway, and Sweden would probably import.....	600,000

Making a total of..... 12,000,000

The movement of cotton, even if the war should end within the next few days, will be slow. The cotton-growing States will require much financial assistance.

The price of cotton is a question which largely depends upon the duration of present hostilities. Taking the past as a criterion, we would think that under the weight of the movement of the crop in October and November, it is possible for the price of cotton in the South to fall to 10 cents or below. When Germany

declared war against France in July, 1870, cotton was selling in New York at about 18 cents per pound. It declined to about 15 cents per pound; subsequently the market rallied on the same crop to about 21 cents per pound.

With financial assistance extended to the cotton-growing States, I see no reason to expect values to sink below 10 cents per pound for middling cotton at leading concentrating points in the South. If the southern banks can secure additional money to make advances during the next four to six months on about 4,000,000 bales, this, in my judgment, would prevent cotton from being dumped on the market, and enable the farmer to realize practically its full value.

We hear some talk about valorizing cotton. This is largely, if not wholly, a State proposition, and is not practicable as an immediate relief measure.

We also hear some talk about a certificated warehouse cotton receipt; a receipt that carries with it a guaranty of weight and grade. This, too, is impracticable at this time. It may be an ideal system of financing cotton, which some day the cotton-growing States will enjoy, but the machinery for certificating cotton is not now available. Again, a certificated receipt is not necessary in connection with a loan made to the owner of the cotton.

A certificated warehouse cotton receipt is a receipt similar to the receipt we are now issuing, the principal difference being it carries with it the certificate of a sworn weigher as to the weight, and a certificate of a licensed classer as to the grade. The certification of weight at the time the cotton is received for storage is a simple matter. We are all familiar with the natural conditions which result in gain or loss in weight of cotton in storage. The certification of grade, especially in the Mississippi Valley, is a difficult proposition. For instance, Mr. F. M. Crump, of Memphis, in his testimony before the Interstate Commerce Commission a short time ago, referred to something like 150 different grades of cotton known in the Memphis market, each carrying a separate and distinct value. Mr. W. R. Craig, of Vicksburg, in testifying before the Interstate Commerce Commission several years ago, said there were 217 grades of cotton known to the Vicksburg market, each of different value. In our judgment the question of weight and grade involve many details that must be left to adjustment between the buyer and seller.

As to the handling and carrying in the South a large stock of cotton awaiting satisfactory market conditions, there are about 800 compress and warehousing points in the cotton-growing States at which the carriers concentrate cotton for reworking and reshipping purposes. These points alone can carry an average stock of, say, 10,000 bales.

Memphis, Tenn., can take care of a stock of 300,000 to 400,000 bales. New Orleans, Houston, Galveston, Mobile, and Savannah can each take care of a like amount. There are compress and storage plants at points like Atlanta and Macon, Ga., Birmingham, Montgomery, and Selma, Ala., Meridian, Vicksburg, Greenville, Greenwood, and Clarksdale, Miss., and Little Rock, Ark., that can take care of from 50,000 to 75,000 bales each. If the banks can get the money to finance the holding of the cotton, there is no question about the South being able to properly take care of the crop until the restoration of normal conditions.

The Mississippi Valley Compress Association, the members of which control about 100 compress and warehousing points, will have a meeting at an early date, the object being that each compress and warehousing plant may put its shoulder to the wheel and lend the farmers, the bankers, and the Government any and every assistance they can for the proper handling and advantageous marketing of this year's cotton crop. Mr. Wilson, the president of this association, tells me he talked with you about this matter yesterday. He has requested me to assure you and your committee of the association's willingness and desire to help in every possible way.

Do not hesitate to command our services.

Yours, very truly,

G. C. HANSON.

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# REGULATION OF COTTON EXCHANGES

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## VARIOUS BILLS RELATIVE TO THE REGULATION OF COTTON EXCHANGES

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APRIL 22 TO 25, 1914



## REGULATION OF COTTON EXCHANGES.

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COMMITTEE ON AGRICULTURE,  
HOUSE OF REPRESENTATIVES,  
*Washington, D. C., April 22, 1914.*

The committee assembled at 10.30 o'clock a. m., Hon. Asbury F. Lever (chairman) presiding.

The CHAIRMAN. Gentlemen, under an order of the committee we have met this morning to begin consideration of various bills before the committee which look to the regulation of the operations of the cotton exchanges.

I desire to say, for the benefit of members of the committee who are new members, that in 1910 we took testimony on this proposition, which testimony is printed and available. The discussion then revolved around the central idea of the necessity for exchanges.

I think, inasmuch as we have limited the time of the hearings to four days, we will ask the speakers, and the members of the committee in cross-examination, to confine themselves to the provisions of the bills under consideration, because I think it is agreed that we are anxious to have legislation in this session of Congress on this proposition; and I believe it is the thought of the majority of the members of the committee, at least, that we need regulatory legislation rather than destructive legislation.

There are two principal bills before the committee which deal with the regulatory idea, Senate bill 110, introduced by Senator E. D. Smith, of South Carolina, and House bill 15318, introduced by myself; and then there is House bill 8192, introduced by Mr. Candler, of Mississippi, which is, I think, identical with the Scott bill, which later became known as the Beall bill, and which twice passed the House of Representatives, but was not acted on by the Senate.

If the members of the committee and the witnesses will keep in mind that we would like to discuss the bills and not go into an academic discussion of the necessity for the exchanges, I think it will expedite the hearings very much, and probably give the committee information which it needs to have in bringing about real legislation.

I will ask Mr. Lewis W. Parker, of South Carolina, to discuss the bills under consideration in his own way.

### STATEMENT OF MR. LEWIS W. PARKER, OF GREENVILLE, S. C.

MR. PARKER. Mr. Chairman and gentlemen, I am by trade a cotton manufacturer. I am interested as such, of course, in the operations of cotton exchanges.

I am not opposed to cotton exchanges. I appeared before this committee some four or five years ago in advocacy of the bill then known as the Scott bill, which in effect would have very seriously limited the

operations of exchanges. I have no apologies to make for the position I then took, which is my present position, that if the exchanges can not be so regulated as to cause their operations to be conducted by legitimate and fair means, then I think abolishment is preferable to the present status of affairs.

On the other hand, I sincerely believe that exchanges which are conducted properly are of benefit, not only to the producer, but to the consumer of cotton, and that when they fulfill their proper position in the trade they are to be encouraged rather than discouraged, and certainly are to be encouraged rather than prohibited.

But the question of regulation now becomes an exceedingly important one, because after experience of years we must admit that the operations on the exchange have not been, at least in my judgment, within the proper sphere of their relations to the producer and the consumer, and that therefore the Government must step in and regulate those operations or cause the abolishment of the exchanges. I favor a regulation.

The bill known as the Candler bill is, I believe you stated, Mr. Chairman, on the lines of the Scott bill. As I have said, if we can not regulate the exchanges, then I favor the Candler bill. If we can regulate them—and I think we can—then I oppose the Candler bill and urge that the Candler bill should not pass.

On the other hand, the Smith bill, passing to this committee from the Senate, has many provisions that are excellent. It does not entirely fulfill my judgment as to what should be in the bill, but I think there are many excellent provisions in the bill as it stands. If I may express my opinion on the subject, the bill heretofore introduced by the chairman of this committee in the House, called the "Lever bill," in my judgment, comes nearer meeting the existing conditions than any other bill which has been presented. I should therefore say, in my judgment, either the Smith bill, with some modifications, or the Lever bill, with a few slight amendments, will meet the conditions in regard to cotton exchanges.

Now, going back for a moment to the relations of the spinner to the cotton trade: The conditions of the trade have changed considerably in recent years. I am to-day selling my goods for delivery as far ahead as next December. My friend Mr. Callaway, who is present, has, I believe, sold as far as a year ahead. In view of this condition, it is essential to the success of our business that there should be some means by which we can protect ourselves in the selling of our goods against violent fluctuations in prices of the commodity which we manufacture. The system of "hedging" by which we do this in cotton manufacture is, under present conditions, very important to us. I think it is legitimate; I think it is necessary; and therefore, admitting that it is both legitimate and necessary, I think it is proper that we should use the cotton exchanges for the purpose of "hedging."

I think the cotton exchanges, likewise, fulfill an important function to the producer. As a spinner, I tell you, gentlemen, to-day, that the South was saved millions of dollars last year by the cotton exchanges. The exchanges, that is, those who speculate on the exchanges, recognize conditions, I think, more correctly and more rapidly than the manufacturers. If it had not been for speculation last fall, while, of course, I think that cotton would have eventually reached the price it did reach, it would not have done so in time to



have served the needs of the great mass of producers; and therefore I say to you that speculation is not to be entirely discouraged. It is to be regulated so as to be made fair to all, but is not to be prohibited, in my judgment.

It is not necessarily adverse, either to the producer or to the consumer. Last season, as I said, speculation was in my opinion absolutely in favor of the producer. The spinner would not have paid the prices paid for cotton during the months of October, November, and December if the speculator had not, in effect, forced him to do so. In other words, the speculator foresaw the conditions more correctly and more rapidly than did the spinner, and therefore the producer of cotton last winter got the benefit of speculation. There have been other seasons, of course, when the producer has got the unfortunate results of speculation, but taking it all in all, I do not think the producer has any reason to complain of the results of fair speculative conditions.

The CHAIRMAN. Mr. Parker, if you will permit an interruption, I will ask you to define just what you mean by "speculation" as contrasted with the general idea of gambling.

Mr. HAWLEY. And I would like to have him add to that, while he is discussing it, what he regards as legitimate speculation.

The CHAIRMAN. Yes; also a definition of what you regard as fair and legitimate speculation.

Mr. PARKER. I regard it as legitimate speculation for any man to back his judgment as to future events. If I foresee, for example, that the demand for cotton is going to be greater than the public believes, and I therefore buy cotton for personal gain, looking for it to advance in price owing to the increased demand, that I should regard as fair speculation, because I am simply backing my judgment.

Mr. HAWLEY. Will you distinguish such an operation as that from a "wheat corner," for instance, such as we have had in years past?

Mr. PARKER. A corner is a different thing from mere speculation. A corner is an effort to secure an illegitimate monopoly of a commodity; and I think it is to be reprehended.

Mr. HAWLEY. Well, how far do you think speculation should go toward buying up a commodity to get the benefit of an advanced price in the future? How far can speculation go toward creating a corner and still be legitimate?

Mr. PARKER. Well, I must admit that I can not define exactly the limitation. I do not think there is any danger, whenever conditions are fair with relation to the rules of an exchange, of there being too much speculation.

Mr. SLOAN. There is a pretty broad twilight zone in there, is there not, Mr. Parker?

Mr. PARKER. I think there is a twilight zone in there; but I can not define it so as to show the difference.

Mr. HAWLEY. Can you go up to the beginning of that twilight zone?

Mr. PARKER. I must admit that I can not define just when speculation should be restrained, or when it can be regarded as legitimate. But rather than prohibit speculation altogether, I would prefer to take the risks of unlimited speculation. I will put it in that form; I can not define the difference.

Mr. SLOAN. And yet, Mr. Parker, is not that the very thing that will have to be done under the bills under consideration, to define

the limits of legitimate speculation, and put that into legislative language? Is not that the thing you put up to the committee?

Mr. PARKER. I do not think you can have speculation which is too extreme, because I think that the law of supply and demand will always come in to prevent that. To illustrate, suppose it were sought to put a corner on cotton on the New York Cotton Exchange. Such a corner might be effective for a few days; but there is always a sufficient supply of cotton in the hands of spinners and a sufficient supply of cotton in the hands of producers which is not yet sold to bring the price of cotton down to its fair spinning demand. I do not think there can be an effectual corner in cotton. In saying that, of course, I am speaking as a spinner.

Mr. HAUGEN. Yes, but we have had a corner in cotton, have we not?

Mr. PARKER. Well, not under present conditions—

Mr. HAUGEN (interposing). What is the present visible supply of cotton?

Mr. PARKER. The visible supply of American cotton is 3,500,000 bales. That is the visible supply. In addition to that, the Government reports show in the hands of spinners 1,700,000 bales.

Mr. HAUGEN. Suppose a man gets into the market and sells 7,000,000 bales; what would be the effect?

Mr. PARKER. If any man is fool enough to sell on the exchanges 7,000,000 bales of cotton—or any combination of men—they would suffer for it; but I do not think any such combination could exist.

Mr. HAUGEN. Well, as a general rule they buy and sell cotton on the exchanges without knowing anything about the supply, do they not?

Mr. PARKER. But the man who takes up the cotton in the case you suppose has to do something to protect it. He would not keep 5,000,000 or 6,000,000 bales in his pocket, so to speak. And when it comes to selling it, the law of supply and demand will fix the price of that cotton.

Mr. HAUGEN. Well, the fact is that 95 per cent, at least, of the speculators know nothing about the visible supply of cotton, or even the production for the year.

Mr. PARKER. I think that is true of a very large number of them.

Mr. HAUGEN. Yes; they deal blindly.

Mr. PARKER. And therefore they are hurt.

Mr. HAUGEN. Well, in that way it would be possible to bring about a corner, would it not?

Mr. PARKER. It would be possible to bring about a corner; but a corner, in my judgment, would be of very short duration.

Mr. SLOAN. Is a large part of the cotton marketed through the exchanges of this country?

Mr. PARKER. No; a very small part.

Mr. SLOAN. Well, how do the total sales on the exchanges correspond with the total supply of cotton throughout the country from one year to another?

Mr. PARKER. They have not kept a record of the total number of transactions on the exchange; but my estimate, based upon what information I have, is that the transactions on the exchange probably range 25 times, or more, the amount of the cotton absolutely produced; it is many times more.

Mr. HELGESEN. Is it not a fact that the legitimate speculator deals with natural conditions and backs his judgment against the supply and demand?

Mr. PARKER. I think it is.

Mr. HELGESEN. While the illegitimate speculator attempts to force unnatural conditions?

Mr. PARKER. Yes; and it is the attempt to reach the illegitimate speculator who is attempting to force unnatural conditions that I favor in this plan. This bill, I think, will prevent that. Take the condition to-day on the New York Cotton Exchange and the conditions we have had in the last 60 days, for instance. It was absolutely without reason, except for conditions on the New York Cotton Exchange, for cotton to decline as it did in March. There was nothing to justify it except the bare force of power of the men who were manipulating the market. Then, in May cotton we had a condition where cotton on the exchange declined as low as 10 or 11 cents, and yet I could not have bought any cotton of middling grade as low as 13½ cents anywhere at that time. And May to-day is quoted on the New York Cotton Exchange at 12½ cents. Yet I will defy any man to buy middling cotton anywhere in the United States to-day and deliver it in New York at 13½ cents.

Therefore, I say that it is that condition of illegitimate speculation that we want to prevent. We want to have some legislation which will prevent such a disparity between the quotations on the New York Cotton Exchange on cotton and the prices of the cotton itself.

The CHAIRMAN. Mr. Parker, can you indicate to the committee the exact thing that brings about that condition?

Mr. PARKER. There are four or five things which produce that condition, Mr. Chairman.

The CHAIRMAN. Will you state what they are, for the benefit of the committee?

Mr. PARKER. I will take the New York Cotton Exchange for example. Under the rules of the New York Cotton Exchange, while the sales are nominally based on middling, at the same time you can deliver any one of a large number of grades. The selection of those grades is, of course, given to the seller; it is at the seller's option as to what grades he delivers. Furthermore, under the rules of the New York Cotton Exchange, the various prices at which the different grades can be delivered is arbitrarily fixed, with reference to their differences, by a committee of the cotton exchange. The effect of that is that the only class of cotton which can be delivered, and which will be delivered at any time on the exchange is that class which is the most undesirable. In other words, the price of the exchange quotation represents the most undesirable character of cotton that can be used or can be produced, practically, within the United States.

Take, for instance, my own case. If I, as a spinner, go to buy cotton, I will examine, of course, carefully the grade. I will examine also the character of the cotton, its length of staple, its strength of staple, and as we call it, its body. In the New York Cotton Exchange, for instance, there is no limitation at all as to the length of staple that can be delivered. Certainly, anything down to five-eighths can be delivered. Five-eighths-inch cotton is practically unspinnable cotton. That is, it can be used only by a very small proportion of the mills in the United States, and only for very limited uses. Therefore

there will gravitate to New York for delivery on those contracts only that class of cotton which represents the lowest grade which can be delivered on the cotton exchange.

The CHAIRMAN. What per cent of the crop is of that low grade?

Mr. PARKER. A very small per cent. I do not think that, in the entire United States, more than 300,000 bales would have a staple less than three-quarters of an inch. My own judgment is that there would not be 300,000 bales having a staple less than that. But, under the rules of the New York Cotton Exchange, naturally it would be that 300,000 bales which would gravitate to New York and have the power to force down the general market. Now, unquestionably, it was the fear of that very condition, the fear of the low grade which prevailed in large quantities last fall, that made the prices so low on the New York Cotton Exchange, at that time.

Mr. HALLEY. How would you remedy that condition, Mr. Parker?

Mr. PARKER. By having a rule that no cotton could be delivered of less than seven-eighths-inch staple.

I will say to you gentlemen with confidence that 90 per cent of the cotton in the United States has a staple of seven-eighths inch or more. I know of only two or three sections in the United States where a shorter staple is produced, and there need never be produced in those sections cotton having a staple of less than seven-eighths inch. It is a mere question of selecting the seed. But even to-day there are only two or three areas in the United States which will produce a staple of less than seven-eighths-inch; and therefore I would make a limitation of seven-eighths inch by law. I think you provide that in your bill, Mr. Chairman.

The CHAIRMAN. Yes.

Mr. SLOAN. Do you mean to say, Mr. Parker, that you can buy cotton on the cotton exchange, or sell cotton on the cotton exchange, and the seller has the option as to the length of staple which shall be delivered?

Mr. PARKER. Absolutely.

Mr. SLOAN. Regardless of the value of the long staple or the short staple?

Mr. PARKER. Yes; absolutely.

Mr. HAUGEN. Regardless of the relative values of the two staples?

Mr. PARKER. Yes.

Mr. HAUGEN. Now, then, do we understand that if they contract to sell a certain grade—I will say No. 1—for 11 cents per pound, they can turn around and deliver a cotton of less value than 11 cents a pound?

Mr. PARKER. Yes. When you say that you will deliver middling cotton worth 11 cents a pound, that means to the spinner middling cotton of good spinning character; in other words, seven-eighths inch or above. That is what it means outside of the exchange. Now, if I go to the New York Cotton Exchange to take up that cotton, I may get five-eighths inch cotton; I am almost certain to get as low as three-quarters inch cotton; and if there can be found anywhere in the United States cotton of five-eighths inch staple, I am bound to get that. If they can find anywhere a cotton which will make me sick, I will get it; there is no doubt about that. In other words, those who operate on the short side of the market will use the most undersirable cotton possible, with the view of preventing anyone from

intelligently taking up cotton on the exchange. The effect of all that is to depress the prices of cotton all along the line.

Mr. REILLY. Why should not the contracts embody the kind of cotton to be delivered?

Mr. PARKER. Within certain limitations, I think that should be done. I do not think you should make it so that it would be too drastic.

Mr. REILLY. Why would you not be allowed to buy three-quarters inch, or five-eighths inch, or any other kind you desire?

Mr. PARKER. It just amounts to this: If you make your limitations too drastic, you are going to prevent the use of the exchange for certain speculative purposes which are perfectly legitimate. I personally believe that speculation is an advantage; as I said, it is certainly an advantage to the producer, and at times also to the spinner. I, as a spinner, am not afraid of speculation, if it is legitimate and fair.

Mr. HAUGEN. What limitation would you suggest? You enter into a contract on the cotton exchange, and whatever the difference may be you will pay the middling cotton price?

Mr. PARKER. Yes.

Mr. HAUGEN. Then, where is your limitation?

Mr. PARKER. The very first I would suggest is on length of staple. I should provide that the staple should not be less than seven-eighths. That is one limitation.

In the second place, I would limit the grades so as not to have the large number of grades now deliverable. Personally, I think the grades should be limited to 10, of which 7 would be white and 3 would be tinges. I think, Mr. Chairman, that your bill goes too far; that you allow too many grades; that is, I would allow nothing above good middling, and nothing below strict good ordinary. There would be 7 grades white, and I would allow 3 tinges, making 10 grades in all.

The CHAIRMAN. Would you not allow strict low middling tinged or middling stained?

Mr. PARKER. I would not allow strict low middling tinged or middling stained.

Mr. HAUGEN. Now, suppose we have 10 grades, and you enter into a contract to purchase so many bales of No. 1 at a certain price, what limitation would you put on that? Would you be willing then to accept any of the 10 grades, or 3 of the 10 grades tinged?

Mr. PARKER. I would have to be prepared to accept any one of the 10 grades. My judgment is that you should not make the limitations so drastic as to limit the contract to one single grade.

Mr. HAUGEN. Well, I do not know of any case where a person selling an article of a certain quality at a certain price would reserve the right to deliver an inferior quality. There must certainly be some difference in the quality of the grade, if you have any grade.

Mr. PARKER. There is a difference, but at the same time it would not be feasible to make your limitations so strict as to unnecessarily limit or hamper the operations on the exchange.

Mr. HAUGEN. But the limitation certainly must be fixed somewhere. It would not be fair to allow a seller to deliver cotton worth 3 cents on a contract price of 11 cents.

Mr. PARKER. Well, of course you understand that if your contract calls for a basis middling and the seller delivers to me low middling instead of middling, I am allowed the difference in value between low middling and middling cotton.

Mr. HAUGEN. I understood from your answer to a question by Mr. Sloan that that was given no consideration on the exchange.

Mr. SLOAN. I got that understanding also, but I was going to ask Mr. Parker another question on that point.

Mr. PARKER. What I meant to say was that the exchange arbitrarily fixes what the difference in price shall be; whereas we contend that that difference should be fixed by the law of supply and demand, and therefore should be fixed by the differences existing in the various markets of the United States.

The CHAIRMAN. That is, the spot markets.

Mr. PARKER. Yes; the spot markets.

Mr. HAUGEN. But I understood from your answer to Mr. Sloan's question that the cotton was delivered at the price fixed in the contract, whatever the grade might be.

Mr. PARKER. No; I did not mean to say that. Suppose, for illustration, on the New York Cotton Exchange middling is quoted at 10 cents—that is, middling basis; if middling was delivered, the price would be 10 cents. At the same time, if I would take up cotton at 10 cents, middling basis, and they would deliver to me low middling, I would be allowed for the difference between middling and low middling  $1\frac{1}{2}$  cents. Now, that would be all right, if that was the market difference in those two grades. But we contend that it is not the market difference between grades which govern them.

Mr. SLOAN. That is, you can settle your contract on any grade, provided you settle the differential in price, and that is an arbitrary differential, not based on supply and demand?

Mr. PARKER. Yes; that is correct.

Mr. HAUGEN. Well, who fixes the difference in price?

Mr. PARKER. A committee of the New York Cotton Exchange.

Mr. HAUGEN. Members of the cotton exchange?

Mr. PARKER. Yes; members of the cotton exchange arbitrarily fix the prices.

Mr. HAUGEN. The spinner, or any other outsider, has no power to settle the difference in price?

Mr. PARKER. Now, it is fixed by a committee of the cotton exchange.

Mr. HAWLEY. Now, suppose you buy a certain grade of cotton. Suppose there are delivered to you on your contract grades that are unspinnable by you; what would you do?

Mr. PARKER. I would then select such grades as I could spin and use them, and then would sell back on the cotton exchange, or to outside parties, what I could not use myself. As a matter of fact, I would sell to outside parties.

Mr. SLOAN. Ordinarily you would not sell to the exchange the difference?

Mr. PARKER. No; the exchange has nothing to do with the delivery of the cotton, or the difference.

Mr. HAUGEN. They would sell for you, just as they do for the other man, would they not?

Mr. PARKER. Oh, yes; I could operate through some member of the exchange and make my sale in that way, and hedge what cotton I had taken up and did not want.

Mr. HAWLEY. Do you buy the greater part of your cotton through the New York Cotton Exchange?

Mr. PARKER. No; only a very small proportion. Take a condition like that which exists to-day. If I had bought last December cotton for May delivery on the New York Cotton Exchange, inasmuch as the price of that cotton to-day is not reflective of the spot price at all, I would probably take up that cotton now, because I could buy it cheaper there than down south. As a matter of fact, the price on the New York Cotton Exchange is not reflective of the spot price.

Mr. HAUGEN. To what extent is there an actual delivery of cotton on future contracts?

Mr. PARKER. It varies in different years. I think this year there have been comparatively small amounts delivered. I can not tell you exactly.

Mr. HAUGEN. Can you give an approximate estimate?

Mr. PARKER. I should say, probably, since October, 200,000 or 300,000 bales have been delivered. I am speaking purely from guess now, of course.

Mr. HAUGEN. About how many bales have been sold? You said about 25 times the output of the crop, I believe.

Mr. PARKER. I should judge by the published report that the operations on the New York Cotton Exchange have probably averaged 200,000 bales a day since October. That would be, for 25 days a month, 5,000,000 bales a month, and in six months, 30,000,000 bales. There have been about 30,000,000 bales bought and sold through the New York Cotton Exchange in six months, and not exceeding two or three hundred thousand bales delivered.

Mr. HAUGEN. But according to your first estimate the crop is about 12,000,000 bales.

Mr. PARKER. About 15,000,000 bales.

Mr. HAUGEN. And 25 times that amount would represent a very much larger number than you gave.

Mr. PARKER. Of course, that is only on one exchange.

Mr. HAUGEN. But for the whole country, what would it be?

Mr. PARKER. For the whole country?

Mr. HAUGEN. Well, do you make the comparison of 300,000 bales as compared with 15,000,000 bales?

Mr. PARKER. I should estimate the deliveries on the New York Cotton Exchange since last October as not exceeding 300,000 bales. The records of the New York Cotton Exchange will show that. I am not at all accurate as to that, but I should estimate that they will not exceed 300,000 bales.

Mr. HAUGEN. Out of a total sold of how much?

Mr. PARKER. Out of a total sold which is represented to have been 30,000,000 bales.

Mr. HAUGEN. Thirty million bales?

Mr. PARKER. Yes. You see they keep no record of the sales on the New York Cotton Exchange, and therefore all we can base the estimate on are the various estimates of the newspapers that the sales on such a day were so much.

Mr. HAUGEN. Well, your opinion on the subject is of value

Mr. PARKER. I give it with pleasure.

Mr. HEFLIN. What is your definition of the distinction between commercial difference in value and the fixed difference in value?

Mr. PARKER. The commercial difference is the absolute difference fixed by the trade, fixed by the law of supply and demand; that is, the difference at which I would go out and buy the cotton. The fixed difference is just the arbitrary difference fixed by the cotton-exchange committee, which says that middling cotton is worth par, and low middling cotton, for instance, is worth such a proportion to middling cotton.

The CHAIRMAN. In that connection, Mr. Parker, is it your judgment that the eight places that we have designated in the bill, under section 6, will reflect the true commercial difference in value?

Mr. PARKER. Well, you have not designated certain spot markets; you simply provide that there shall be eight places.

The CHAIRMAN. Yes; the bill provides that the Secretary of Agriculture shall designate the eight places.

Mr. PARKER. I think the Government can be relied upon to select the eight places. Now, I am opposed to the provisions of the Smith bill in this respect, which would make the difference dependent on the operations in one market, because if you do that you have violent manipulation. The right thing is to take the average difference in a certain number of markets, 5, or 7, 8 or 9.

The CHAIRMAN. Would it be possible, in your judgment, for eight spot houses, for instance, to manipulate the spot market in the eight places designated by the Secretary of Agriculture in such a way as to govern the future market?

Mr. PARKER. If it was left to the judgment and the discretion of the Secretary to select the places, I think there would be no danger. But if the Secretary gave information in advance that he was going to fix the difference by certain designated markets, there would be some danger of manipulation, I think.

The CHAIRMAN. You have read section 6 of the bill (H. R. 15318); in your judgment, does that cover the situation?

Mr. PARKER. With certain verbal changes, that practically covers it, I think.

Mr. HEFLIN. Under the system of fixed differences now in use by the New York Cotton Exchange, it is very often the case that the commercial price in the local markets all over the South is above the price on the cotton exchange.

Mr. PARKER. Constantly; and that has been steadily the case since December, for instance, of last year. At the very time that, according to the quotations of the New York Cotton Exchange, that cotton was worth in March only 11½ cents, I was paying 13½ cents for cotton to spin.

Mr. HEFLIN. Then, when they fulfill their contracts, or settle their contracts by paying the difference in money between the grades, they settle by the fixed difference plan on the cotton exchange and not by the commercial difference?

Mr. PARKER. That is right.

Mr. HEFLIN. Do you not think that injures the producer?

Mr. PARKER. I think it injures the producer; and I think it injures the spinner much more seriously. The producer, most fortunately, has, as a rule, gotten into an independent position. That is



the most interesting development of our industry; that the producer is not governed by the quotations on the cotton exchange; he exercises a good deal of intelligent judgment and backbone; and he sells his cotton generally, after the first rush is over, only when he gets his price for it.

Now, he is affected in this way, and it is a very serious thing: Suppose I, as a producer, in December decide that the price of cotton is too low, and I will not sell. I hold my cotton for a better price. Now, I am in this position: The cotton man, an intermediate man, buys up the cotton to the extent of, say, two or three or four hundred thousand bales. Now, he hedges by selling short on the cotton exchange against that cotton. He may have bought his cotton at a time when he could buy it at even quotations in New York. Supposing New York was quoting December at 12 cents; he paid 12 cents for his cotton. The cotton-exchange price, after he sells short, goes down 3 cents. Now, you see, he has made 3 cents in the decline by the short sale. Now, if the spot price does not go down 3 cents—and it does not, as a rule—he simply advances the price of the cotton he is going to sell to the spinner; whereas at the start he would probably have sold his cotton at 40 or 50 cents profit a bale. When the cotton goes down, he keeps his price just slightly under the existing farmer's prices. He advances the basis. He sells me cotton as high as 100 points on New York. And I say that the intermediate man has made that difference by an illegitimate decline on the cotton exchange. Now, under those conditions the producer can not sell his cotton in the warehouse to me until the intermediate man has sold out all his stock to me and other spinners, because his price is slightly lower than that of the producers. And to that extent the producer is very seriously affected by all these quotations on the cotton exchange.

Mr. HELGESEN. Is it not a fact that when the cotton exchange can deliver an inferior grade to you as a spinner you can not depend on your purchases through the exchange for your requirements?

Mr. PARKER. I can not depend upon them except under extreme circumstances. There are times where, through good fortune or a very careful elimination of undesirable cotton, I can go to the exchange and buy my cotton. But there is only one year in a number of years when I can do that. This year there has been very great care in the elimination of inferior grades.

Mr. HELGESEN. Well, has not that had a tendency to depress the prices?

Mr. PARKER. Yes, it has.

The CHAIRMAN. As a protection to yourself, I understand you to say that you must always hedge?

Mr. PARKER. Yes; but it is absolutely the case that I can not pay the price on the exchange because of the fear that I will get a class of cotton which I can not use.

Mr. CALLAWAY. Mr. Chairman, may I say a few words?

The CHAIRMAN. Certainly.

Mr. CALLAWAY. Mr. Parker, I think you said something a moment ago that you did not mean, and now is a good time to correct it. You agreed to section 6 of this bill. Section 6 provides as follows:

That for the purposes of section 5 of this act the differences above or below the contract price which the receiver shall pay for cotton of grades above or below the basis grade in the settlement of a contract of sale for the future delivery of cotton shall be

determined by the actual commercial differences in value thereof established by the sale of spot cotton of the same grades, respectively, made, upon the sixth business day prior to the settlement of the contract, in the market where the future transaction involved occurs and is consummated.

Now, do you not mean that it would be better for the difference to be settled by the prices in eight other spot markets instead of by that one market? That is, do you not want commercial differences to be fixed by the prices throughout the section rather than the prices in one town?

Mr. PARKER. I beg your pardon. I thought your bill, Mr. Chairman, did fix the commercial differences by the average of the eight spot markets.

The CHAIRMAN. It does. I think Mr. Callaway is mistaken about that.

Mr. CALLAWAY. It says, the differences shall be determined by the actual commercial differences in value thereof established by the sale of spot cotton of the same grades, made upon the sixth business day prior to the settlement of the contract in the town where the sale is made. That difference ought not to be fixed by the price in the town where the sale is made, because they can not settle it by the New Orleans price, for example, but would have to take into consideration the prices of Memphis, Galveston, Savannah, and Augusta.

The CHAIRMAN. That is true.

Mr. PARKER. I agree thoroughly with that, Mr. Callaway.

Mr. MAGUIRE. In making up the fixed price as distinguished from the commercial price, Mr. Parker, what elements are considered?

Mr. PARKER. It is supposed to be fixed by the honest and intelligent judgment of the members of the committee.

Mr. MAGUIRE. I know that, but what elements are considered?

Mr. PARKER. I think, as a rule, it is supposed that they can fix it in advance of correct information of what is going to happen.

Mr. MAGUIRE. Is that the only consideration?

Mr. PARKER. Yes. But it is a perfectly preposterous proposition for any man on November 15 to fix what is going to be the difference between good middling and low middling cotton some months afterwards, because it depends on what will happen after November 15. It is impossible.

Now, the New York Cotton Exchange has agreed to fix another difference about February 15, so that they can then rectify slightly any defect that may exist in the differences fixed on November 15. Experience has not yet indicated their ability to take advantage of that rectification. They have lately, however, adopted a rule for a monthly fixing, so as to remedy any extreme difference. Personally, I should favor a daily fixing.

Mr. MAGUIRE. Is that taking into consideration a series of commercial prices?

Mr. PARKER. It is supposed to take into consideration the differences existing in the different markets.

Mr. MAGUIRE. I suppose there are other elements than the commercial element; that is what I wanted to know.

Mr. PARKER. The difficulty is that on November 15 there may be a short supply of the lower grades of cotton and an abundant supply of the higher grade. Therefore, on November 15 the committee might honestly fix a difference which would be utterly unreflective

of the differences which actually existed afterwards, because within a month we might have an increase in the supply of the lower grade and cessation in the supply of the higher grade.

Mr. YOUNG. Mr. Parker, I am from the great cotton State of Texas. Cotton there, as you know, is largely purchased from the farmer by the merchant in the average little country town.

Mr. PARKER. Yes; that is correct.

Mr. YOUNG. The rule that prevails in our section of the country is that the merchants do not like to buy cotton until the hour when the market is open. The merchant gets his report from New York, New Orleans, and Liverpool, and then he proceeds to buy cotton based on the figures he gets from those different centers.

Mr. PARKER. That is right.

Mr. YOUNG. Now, that being true and the price being fixed, so far as the farmer is concerned, by the figures that this merchant gets from those centers, how are you going to have any figures as to the value of cotton in those 6 or 8 or 10 centers?

Mr. PARKER. Well, those values will change day by day but very slightly. There will not be, in my judgment, a difference day by day; it will be almost imperceptible. It is only in the course of a week or a month that those differences will become great.

Mr. HEFLIN. There is no reason why those prices should be considered?

Mr. PARKER. My judgment is that those prices are brought about by illegitimate rather than by legitimate means.

The CHAIRMAN. Now, Mr. Parker, you have discussed how the present system is detrimental to the producer and the spinner. Now, when you have answered a question which Mr. Rubey desires to ask, will you discuss the next subject?

Mr. RUBEY. You spoke of the committee of the cotton exchange taking up this question. The members of the committee are speculators on the exchange, are they not?

Mr. PARKER. The majority are probably perfectly legitimate cotton dealers. I think to-day, as I know the committee, that it is a perfectly intelligent, honest committee, who are expressing at the time they fix the differences a perfectly intelligent, honest opinion. Only they are undertaking to do, in my opinion, an absolutely absurd thing, to determine what are going to be market conditions weeks afterwards.

Mr. RUBEY. You do not think they would fix conditions for their own benefit, do you?

Mr. PARKER. It has been done a very few times in the history of the exchange.

Mr. HEFLIN. Since on the cotton exchanges speculation is carried on, and that speculation sometimes becomes gambling pure and simple, would it not be wise for Congress to provide a plan by which all contracts had on every exchange in the country should be made known?

Mr. PARKER. My judgment is that it should be done.

Mr. HEFLIN. So that the names of those buying and the names of those selling and the amount of cotton actually delivered on contracts should be known?

Mr. PARKER. That is right.

Mr. HEFLIN. Then we can tell, at the end of the cotton season, how much of that business has been legitimate and how much has been pure speculation?

Mr. PARKER. I think there should be kept by the cotton exchange a record of every operation on the cotton exchange, just as the New York Stock Exchange does, so that they could determine at the end of every day, or at the end of any month or year, how many bales of cotton have been sold, how many have been bought, and so on.

Mr. HEFLIN. The bill which I introduced provides that such a record be kept and that record shall be furnished from time to time to the Secretary of Agriculture and that anybody and everybody can inspect that record and find out exactly what is going on on the exchanges.

Mr. PARKER. I am in thorough accord with that provision.

The CHAIRMAN. Does section 11 of the Lever bill cover that proposition, Mr. Parker.

Mr. PARKER. Yes; on a casual inspection, I would say that it does. I am not familiar, Mr. Hefflin, with the exact verbiage of your bill, but I think the Secretary of Agriculture should have that power.

Mr. HEFLIN. My bill is H. R. 9681.

The CHAIRMAN. You think it is important that that should be done, do you?

Mr. PARKER. Yes; I think it is absolutely important.

Mr. HELGESEN. If I understood Mr. Young correctly he stated that the local merchant, in buying from the farmer, based his price on the exchange prices in New York, or New Orleans, or Liverpool; and as I understood it you stated that purchases made on those markets are always made on the lowest grade of cotton that can be delivered?

Mr. PARKER. That is true.

Mr. HELGESEN. Well, has that the effect of giving the Texas farmer the lowest grade that can be delivered?

Mr. PARKER. No, sir; for the reason that the Texas merchant will not necessarily give the farmer the same price. As a matter of fact we sell the cotton at the South at 50 or 100 points over the New York price, and I have seen it at 200 points over the New York price. What the merchant will do is this: He will fix a price in relation to the prices on the exchanges. He may fix it 50 points or 100 points over the exchange price, or less than the exchange price; but it has a relation to the exchange price; and a downward quotation, you see, may affect very materially that relation and the price paid to the farmer.

Mr. HELGESEN. The exchange prices do affect the price paid to the farmer?

Mr. PARKER. Very materially. But while I do not think the farmer is affected to-day by conditions on the exchange as he was in the past, he would be affected, except for the independence which he has been enabled to show in the last few years.

Mr. SLOAN. Have you a copy of the rules of the New York Cotton Exchange which you are now discussing, relating to these settlements, which you can incorporate in your testimony?

Mr. PARKER. I think I can get a copy.

Mr. SLOAN. It would be an interesting thing to have, and very useful to the members of the committee who do not live in the cotton belt.

The CHAIRMAN. We would be very glad to have that, Mr. Parker, and it will be placed in the files of the committee.

Mr. PARKER. I will furnish it, Mr. Chairman.

Mr. JACOWAY. How many bales of cotton were sold on the New York Cotton Exchange last year?

Mr. PARKER. That is purely a matter of guess. No record is kept. I estimate that in all probability, within the 12 calendar months, the two exchanges probably sold more than 100,000,000 bales. Last year was not an active year. I think at times there have been many more bales than that sold; but that is purely guess work.

The CHAIRMAN. You may proceed with your discussion, Mr. Parker.

Mr. PARKER. First, I would like to have a careful limitation as to the length of staple. I would like to have a careful limitation as to the number of grades that could be delivered. Another limitation which I think it is important to have —

Mr. HAUGEN (interposing). How do you suggest fixing the grades?

Mr. PARKER. I would make the Government standards the grade, and in that connection I think the Smith bill falls into very serious error in undertaking to provide for two standards in grades, "Gulf" and "upland." I am a practical cotton man; I use about 80,000 bales of cotton a year, and therefore I am familiar with the uses of cotton; and I tell you that there is no necessity whatever for more than one standard, and that for the last 20 years there has not been more than one standard in the United States, and if I were to-day to send to the New York Cotton Exchange for a type of their standard classification I would not get two types, one illustrative of the Gulf cotton and one of the east coast cotton; and, furthermore, if you take the cotton of the east coast and take the cotton of the Gulf of the same grade and put them under a glass I will defy any man to tell which is from the east coast and which is from the Gulf. Now, you can not tell by sight the difference between the Gulf middling and the east coast middling.

The CHAIRMAN. Is there any difference in the body?

Mr. PARKER. Oh, yes; there is a difference in the body, and there is a difference in the character of the cotton, but that does not affect grades. That goes to the value. I will give my friend, Mr. Heffin, a quarter of a cent or a half a cent more for his cotton than for South Carolina cotton, because the Alabama cotton has the better quality and character.

Mr. JACOWAY. The body and character of cotton differ when grown 5 miles apart.

Mr. PARKER. Yes; they differ when grown on the same farm, under different conditions. They differ according to the soil, and according to the seed which is used. I have, for instance, a mill in Chester, S. C. We can not use a bale of cotton raised around Chester, because it is so inferior in character that I can not use it. They will use the Peterkin seed, or the King seed, which makes a short staple. Then, 30 miles from that I pay them constantly half a cent extra for cotton because they use a big Texas boll. The grade is the same.

I buy them on the same grade, but the character of the cotton is wholly different.

The CHAIRMAN. As to the length of staple, I have had a good many letters from different cotton men to the effect that the limitation of the staple ought to be three-quarters of an inch, instead of seven-eighths, as fixed in the bill.

Mr. PARKER. It ought to be seven-eighths. I think three-quarters is much better than now exists. And I tell you to-day, with absolute confidence, that if you put the limitation seven-eighths inch, there is no section of the South which, with care, can not produce cotton with seven-eighths inch staple, and furthermore, that with the grade as it exists to-day, in my judgment, not 10 per cent of the cotton of the United States has a staple less than seven-eighths inch.

The CHAIRMAN. Another suggestion which has come to me in my correspondence is that this subdivision 5 of section 5 of the Lever bill should prohibit the delivery of bollies upon contract.

Mr. PARKER. That is prohibited by various exchanges to-day. There should unquestionably be, in my judgment, a prohibition against delivery of bollies, linters, and also what is generally known as machine cotton.

Mr. HAWLEY. What does that first word that you used mean?

The CHAIRMAN. I was going to ask him to explain what the word "bollies" meant.

Mr. PARKER. We do not have them; but, as I understand it, the term "bollies" is used where cotton is picked on account of being caught by a frost or a freeze before it is opened, and is therefore immature. The boll is put through the machine, and the whole cotton is ginned together, and therefore it seriously injures the staple.

Mr. JACOWAY. Do they not boll that cotton in the machinery and thresh it all out together?

Mr. PARKER. Yes; they thresh it all out together. Now, the effect of that is to very seriously injure even the good cotton which is picked with the bollies. It has got a market. The bollies have a place in the market, but it ought to be distinguished from the other cotton, just as you would distinguish one class of food from another class which is not of proper character.

Mr. YOUNG. Where the premature frost catches our cotton, which happens occasionally, we gather that bolting and thresh it out and gin it. But that is only occasionally. But you take last season, for instance, in Texas, when we had a continuous rainfall from the time the cotton opened until the last boll was off. The cotton balled all right, but the hull had rotted on the stalk. The result was that when you tried to gather that cotton from the boll you could not do it. That forced the farmers to the necessity of picking the whole thing together, and then the improved machinery threshed the whole thing out, but it did leave the good cotton.

Mr. PARKER. You are mistaken in saying that there is no injury in such a case.

Mr. YOUNG. Of course our staple was very much depreciated. But that was not a case of bollies proper. That was an unusual condition.

Mr. PARKER. I think that cotton you describe would be called machine cotton.

Mr. E. J. GLENNY. May I say a word, Mr. Chairman?

The CHAIRMAN. Yes, certainly.

Mr. E. J. GLENNY. I was going to suggest that the difference between bollies and machine cotton is the difference expressed by Mr. Young.

Mr. PARKER. That is the difference. And the difference between the bollies and the machine cotton does not necessarily affect the selling value of that cotton on the cotton exchange. For instance, I bought, a few days ago, a thousand bales of cotton that I knew was machine cotton, but I bought it with my eyes open, and therefore I bought it at a price which would cover that waste. Now, what I object to is the use of the machine cotton on the cotton exchange, because it will depress the price on cotton generally to all farmers.

Mr. YOUNG. Now, take the reverse of the proposition: If that rule were put into effect, what would be the effect on that cotton last year that really had a spinning value?

Mr. PARKER. It would not affect it at all. You would still get from the spinner the spinning value of that cotton. The only thing is that you would not be permitted to depress the price of nine-tenths of your cotton by the use of one-tenth of your cotton. I do not suppose that on the average more than one-tenth of your cotton is machine cotton.

Mr. YOUNG. No; last year was unusual.

Mr. PARKER. Now, the effect of allowing machine cotton to go to the exchange—

Mr. RUBEY (interposing). Will you explain what machine cotton is?

Mr. PARKER. Machine cotton is where in place of picking the cotton out of the bolls you pick the cotton in the bolls as a body and just put it all into machinery which separates the locks away from the bolls and then gins it.

Mr. SLOAN. Is it machine-picked instead of hand-picked cotton?

Mr. PARKER. No; it is not machine-picked cotton; it is not picked in bolls, but it is picking the cotton out of the bolls.

The CHAIRMAN. It is picking the locks out of the bolls?

Mr. PARKER. Yes; instead of picking the locks out of the bolls, and leaving the bolls on the stalk they pick the whole thing.

Mr. SLOAN. The machine separates the cotton from the boll?

Mr. PARKER. Yes; it separates the cotton from the boll.

Mr. RUBEY. Now, you just used another expression I would like you to explain.

Mr. PARKER. The difference between bollies and machine cotton is that bollies is the immature unopened cotton, which is passed through a machine with the boll, whereas machine cotton generally is opened cotton which is passed through. I think that is the distinction.

The CHAIRMAN. Now, as to section 5, subdivision 5 of the Lever bill (H. R. 15318), it has been suggested that the limitation there would deny the delivery under contract of anywhere from 15 per cent to 25 per cent of an average crop in the south.

Mr. PARKER. Do you mean cotton that is less than seven-eighths inch or more than  $1\frac{1}{2}$  inches in staple?

The CHAIRMAN. Yes.

Mr. PARKER. My judgment is different. My judgment is that there is not raised in the United States exceeding 300,000 bales of

cotton less than seven-eighths inch, and as I have said, there is place, in my judgment, where longer cotton can not be raised.

Mr. JACOWAY. Three hundred thousand bales of hill cotton, or bottom cotton, do you mean?

Mr. PARKER. Always hill cotton, or upland cotton, I should say.

(At this point the chairman left the committee room and Mr. Lee took the chair.)

Mr. LEE. If you are through with that point, Mr. Parker, I wish you would briefly give your views as to the strong points of the Lever bill<sup>1</sup>, the strong points of the Smith bill and of the Heflin bill and the Candler bill. Just the strong points of each one.

Mr. PARKER. My objection to the Candler bill is that it is one of destruction rather than of regulation. I favor regulation rather than destruction.

Mr. TRIBBLE of Georgia. I should like to ask a question.

Mr. LEE. Certainly.

Mr. TRIBBLE of Georgia. The Candler bill is the old Scott bill, is it not?

Mr. PARKER. Yes, sir.

Mr. TRIBBLE of Georgia. You represent the New York Cotton Exchange, do you not?

Mr. PARKER. No, sir.

Mr. TRIBBLE of Georgia. What is your position?

Mr. PARKER. I am a spinner who buys cotton, and have probably been as severe a critic of the New York Cotton Exchange as any man in the United States. [Laughter.]

Mr. JACOWAY. You have had differences with the New York Cotton Exchange, have you?

Mr. PARKER. Yes; at times. I therefore for the reasons given, favor a bill of regulation rather than a bill of prohibition; although I favored the Scott bill some four or five years ago, as being necessary, under existing conditions, unless it could be regulated; I think we have now reached a period of regulation.

Mr. MAGUIRE. Is that opinion general among the spinners?

Mr. PARKER. I think so. I am ex-president of the American Cotton Manufacturers' Association, and am chairman of the committee on cotton exchanges, and therefore my views have received their indorsement a number of times, and I think will receive their indorsement again at the next meeting of the association next week.

Mr. MAGUIRE. Have you any idea what the producers think about it?

Mr. PARKER. I think the thoughtful producers prefer regulation rather than prohibition. Among the larger farmers with whom I come in contact I find that the sentiment is growing for regulation rather than destruction.

Mr. REILLY. Your object as a spinner is to get cheap cotton, is it not?

Mr. PARKER. No, sir; I do not believe in cheap cotton. I believe in a price which represents a fair profit to the producer. If you can give us a steady price, or anything approaching a steady price, I can regulate my business with reference to the price. What ruins me, and what ruins every spinner, is the condition under which cotton is quoted in December as 14 cents, in March as 11½ cents, and yet in



that period there has not been a decline of a nickel in what I am paying for my spinning cotton.

Mr. REILLY. Who does the quoting?

Mr. PARKER. The exchange.

Mr. REILLY. Still you want them to continue to exist?

Mr. PARKER. Yes; but I want to regulate them so as to make their quotations conform to spot prices. I will take my chance on the law of supply and demand as to spot cotton, but not as to a fictitious price, telegraphed all over the world, which affects the price of my cotton.

Mr. LEE. You may proceed with your statement, Mr. Parker.

Mr. PARKER. I would oppose the Candler bill. I would favor the Heflin bill in its requirement of publicity. I believe in publicity.

Mr. HEFLIN. Another provision of my bill provides a penalty for failing to comply with the contract. Do you not think that the exchanges ought to be conducted in such a manner that if you buy 100,000 bales of cotton of a certain grade, you can force them to deliver to you that cotton which you bought?

Mr. PARKER. Mr. Heflin, I think you are making a mistake in that; although as a spinner I would like to have an exchange where I could buy the exact grade I want, I will tell you that if you go too far you will so restrict the operations of the seller that you are going to give too many advantages to the buyer. I object now to the giving of too many advantages to the seller. And if you give too many advantages to the buyer that will also be injurious to the trade. That would be an absolute restriction to one grade and would give me an advantage over the seller, and would ultimately prove a mistake in the interest of both the producer and the spinner.

Mr. HEFLIN. In nearly every other line of business that rule is followed. For instance, if I buy from you a white horse, you can not deliver to me a black horse and settle for the difference; you would have to comply with the terms of the contract.

Mr. PARKER. Yes.

Mr. HEFLIN. Now, I am trying to get the cotton exchange that pretends to deal in cotton and sells a grade of strict middling and sets it at a certain price, so conducted that the man who buys, when he gets ready for the cotton which he bought, will have the power to make them deliver that cotton. If that is not done, what right have they got in the cotton business? They set themselves out as a place to sell and deliver cotton.

Mr. PARKER. Yes; but I do not think you will find it practicable to make the exchange a place for the mill or the consumer to buy his stock for consumption there. All that you can do is to say that the rules of the exchange shall be such that the prices reflected on the exchange shall be the same as the spinner is paying for spot cotton at the same time in the South, and have a proper relation to those prices. I do not think the time will ever come when I will go to the exchange to buy my stock of cotton, as a general rule. That would be for the merchant to do, but he has got to protect himself.

Mr. RUBEX. A moment ago you stated that about 25 bales of cotton have been sold for every one that was raised.

Mr. PARKER. That is my guess.

Mr. RUBEX. Do you think that condition should continue?

Mr. PARKER. That condition is not quite as speculative as you would think. I might myself buy two or three times as much cotton as I absolutely consume. For instance, I am selling goods to-day. I buy 10,000 bales on the New York Cotton Exchange. Now, I do not use that, except as a hedge against my absolute purchase. A week afterwards I go and buy the spot cotton. When I do that, I let go my hedge. So that a very large proportion of the operations on the cotton exchanges are hedges. I think Mr. Marsh followed operations where his 100 bales of cotton hedged five times. So it does not necessarily follow—

Mr. YOUNG (interposing). Right there let me interrupt you and ask, Where it is a hedge on your part, how about the other side?

Mr. PARKER. It may or may not be a speculation on his part. We can say this, that if the rules of the cotton exchanges are fair to both buyer and seller, speculation is not necessarily adverse either to producer or consumer. I believe in the exercise of mercantile judgment and that the exercise of mercantile judgment comes in when a man, even though speculating, anticipates the future by judging properly the conditions.

Mr. TRIBBLE. Let me ask you what you consider to be the proportion of the number of buyers on the cotton exchange to the number of bales raised?

Mr. PARKER. Well, of course there would be just as many buyers as sellers.

Mr. REILLY. What advantage has the cotton exchange over you to enable it to fix the proper prices in December?

Mr. PARKER. They have no advantage in December. By December, the combined judgment of the speculator and the spinner would be such that they could say that the supply of cotton was greater or the demand was greater. The December price has practically held since that time; there has been very little change between what I paid in December and what I would pay now; whereas the prices fixed by the exchange have gone down 2½ cents. Now, I object to that manipulation, which has forced the exchange price down, and I say that the reason for that condition is that the rules are not properly drawn.

I would favor the Smith bill for the reason that, having passed the Senate, it could be amended in its provisions where necessary. But I should prefer the Lever bill, which rests upon the power of taxation, rather than the Smith bill, which rests upon the power to control interstate commerce.

Mr. HEFLIN. What do you think of combining the two?

(At this point the chairman returned and resumed the chair.)

Mr. PARKER. I think that would be very proper. There are good features in both bills.

Mr. LEE. You would prefer to place it upon the taxing power of the United States, would you?

Mr. PARKER. I would prefer to place it upon the taxing power. I would place a large tax on the operations of the cotton exchanges not in accord with Government regulations. I would tax the operations very little—5 or 10 cents a hundred bales—where the operations were in accord with the Government regulations.

The CHAIRMAN. Is the maximum limit of taxation fixed in the bill high enough, in your judgment?

Mr. PARKER. No. My judgment is that it does not amount to enough, at 50 cents a bale, to make it effective. I would make it as high as \$1 a bale.

Mr. HEFLIN. \$1 a bale on what kind of contract?

Mr. PARKER. On all contracts not conforming to your requirements.

The CHAIRMAN. You understand, of course, that we have to rest the regulations under the taxing power of the Government?

Mr. PARKER. Yes; I understand that. And, furthermore, I want to say this, that I have been a critic of the New York Cotton Exchange—I mention that particularly, because I think the New Orleans Cotton Exchange has been more disposed to conform to the regulatory power of the Government. However, I think there is a difference there to-day on the New York Cotton Exchange, and that whatever reasonable rules and regulations are passed by Congress will be conformed to by the exchanges.

The CHAIRMAN. One other question: Will it be possible, in your judgment, for the parties to transfer a tax of 5 cents a hundred bales to the producer of the cotton, or would it be absorbed?

Mr. PARKER. No. In my judgment, it would be absorbed by the commission house, or by the speculator.

The CHAIRMAN. You think it could not possibly be transferred to the farmer, do you?

Mr. PARKER. No, it could not, in my judgment.

Mr. JACOWAY. You are familiar with the Clarke amendment taxing cotton, are you not?

Mr. PARKER. Yes.

Mr. JACOWAY. What do you think of that?

Mr. PARKER. I opposed it, because I thought it would be practically destructive. I favored the Smith-Lever amendment, because I felt that that would be regulation, and not destruction.

Mr. TRIBBLE. Then you are not opposed to the exchanges?

Mr. PARKER. I am not opposed to the exchanges, because I think they are best for both producer and consumer when their rules are fair.

Mr. HAUGEN. Of what advantage are the exchanges to you as a spinner?

Mr. PARKER. Well, suppose to-day I want to sell my goods for December delivery. I can not go to any lot of farmers and buy 10,000 bales of cotton. I have got to have some place where I can hedge my sales, or if I do not I am running a very great risk. Therefore it is of great advantage to me to buy 10,000 bales on the exchange as a hedge.

Mr. HAUGEN. Provided you get a square deal.

Mr. PARKER. Yes; provided I get a square deal.

Mr. HAUGEN. If the other party is willing to take the chance, you are perfectly willing that he should do it?

Mr. PARKER. Yes; I am perfectly willing that he should do so.

Mr. SLOAN. Your hedging is insuring against a possible loss?

Mr. PARKER. Yes; insuring against possible loss.

(Thereupon, at 12.05 o'clock p. m., the committee took a recess until 1.30 o'clock p. m.)

## AFTER RECESS.

The committee reassembled pursuant to the taking of recess.

**STATEMENT OF MR. LEWIS W. PARKER—Continued.**

Mr. PARKER. I would just like to add a few words to what I said this morning, Mr. Chairman. It is a matter more or less personal. I do not want any misapprehension on the part of the committee as to my relation and the relation of the spinners generally to this question. I know the general impression is that the spinner desires low prices, and that therefore any action we take on this cotton exchange question would be with a view to getting low prices for the commodity. I wish to say I am willing to submit all the records to you to show that every resolution passed by the American Cotton Manufacturer's Association relating to the cotton exchanges has been a resolution in condemnation of low prices and not a resolution in condemnation of high prices. Every resolution we have taken has been against manipulation in favor of low prices. The reason of that is this: Last December, for instance, we had gradually adjusted ourselves in the sale of our products to the price of 14-cent cotton. Now, I say to you gentlemen in all earnestness that had cotton remained at 14 cents, as it was in November and December, the spinners of America would have had a prosperous season; but as it is now we are losing money. Why? Because the cotton exchanges fail to reflect the price of the commodity. They show a declining price through the spring and summer. In other words, it went down in March as low as 11½ cents.

Therefore, the buyers of cotton goods throughout the United States and throughout the world, particularly abroad in China, notice the cotton exchange quotations. They do not know what I am paying for cotton down in the South; they are dealing by the cotton quotations; they are following the cotton exchange quotations, and they have noticed a declining market from December. As a matter of fact spot cotton I have to spin has not declined one cent in that period. What is the result? When I ask the same prices for my goods I asked in last November the buyer says, "Oh, the mischief; you are asking me an unfair price. Cotton has gone down 2½ cents a pound and you are asking me the same price for your goods as you asked me in November."

Therefore, what the spinner asks, is for you to so regulate the exchanges that they will truly reflect spot prices, spot prices being made by the natural law of supply and demand. If you do that, we will accept our medicine, even if it comes high. We will be protected against manipulated declines; and, as I said, they have seriously affected the cotton industry year after year during the last four or five years.

That is what we ask. We are not for low prices; we favor reasonable and fair prices. I am a Southern man; 75 per cent of my stockholders are residents in South Carolina. A large part of them are farmers, and they are interested in my plants because they think those plants are a benefit to them. But, gentlemen, while I favor a fair price for the commodity, at the same time I earnestly ask for regulation against manipulation.

That is all I ask for.

**STATEMENT OF MR. FULLER E. CALLAWAY, OF LAGRANGE, GA., AGRICULTURIST, MERCHANT, MANUFACTURER, AND BANKER.**

Mr. LEE. Mr. Callaway, give us your name and where you are from and state in what way you appear before the committee.

Mr. CALLAWAY. Fuller E. Callaway, of LaGrange, Ga. I am an agriculturist, a merchant, a manufacturer, a banker, a warehouseman, and a ginner.

Mr. LEE. Now, Mr. Callaway, in your own way, I would be glad if you will tell us what you know about these bills.

Mr. CALLAWAY. I have just typed off in my own way the amendments I would suggest, and I will pass copies around, and possibly for the benefit of each member of the committee, if they would take these, they can read from them and follow me as I go along and ask questions. I am not a speaker, and I would be glad for you to ask me any questions you desire, because they remind me to say something I probably would not otherwise say.

I would suggest, first, the adoption of standard Government grades of upland cotton, and one standard only, and we would recommend the elimination of middling fair and good ordinary, as there is very little of these grades, and the addition of good middling tinged, strict middling tinged and middling tinged, as a good proportion of these grades is raised every year.

There are nine grades, I think, under the present plan, and they are all white cottons. Two of those are the highest and lowest grades. There are not many of them used or sold as compared to middling ones, and if you cut those two out and put in three grades of tinges, of which there are many sold and used, and good commercial cotton, what I suggest there would include a large range of crops, the largest per cent of the nine grades to-day, and a better range of crops for the spinner to take, because they have high-grade tinges everywhere, very high-grade cottons, and preferred in many cases really to white cottons.

I guess there is no doubt they will have one standard only, because they do not have two yardsticks different from 36 inches apiece, and I believe the United States has voted down two standards of money. They will always get confused on a double standard. I do not think the New York Cotton Exchange has two standards now. Have they two standards?

Mr. MARSH. No; only one.

Mr. CALLAWAY. I think that would certainly confuse, and certainly we want to get a fair, practical plan, and not one that would be confusing.

Mr. HUMPHREYS of Mississippi. You refer now to those upland and gulf cottons that are mentioned in the Smith bill?

Mr. CALLAWAY. Yes, sir.

Mr. HUMPHREYS of Mississippi. You think there ought to be one grade?

Mr. CALLAWAY. Only one.

Mr. HUMPHREYS Of Mississippi. May I ask you about section 3 of the Smith bill?

Mr. CALLAWAY. Is No. 110 the Smith bill?

Mr. HUMPHREYS of Mississippi. Yes. Section 3, page 4. What do you say about that?

Mr. CALLAWAY. Well, it does not make any difference whether you leave that in or not. All these cottons are traded in by private treaty; and this does not change that at all.

Mr. HUMPHREYS of Mississippi. There is not any future market for long staple is there?

Mr. CALLAWAY. No, sir.

Mr. HUMPHREYS of Mississippi. Is there any occasion, then, to legislate on the subject?

Mr. CALLAWAY. I do not see any use for it. I do not see any harm that it does, and I do not know of any good it does.

Mr. HUMPHREYS of Mississippi. I think I will be able to demonstrate to you there is harm in it; but do you see any good in it?

Mr. CALLAWAY. I do not.

Mr. HUMPHREYS of Mississippi. There is no future market for long-staple, is there?

Mr. CALLAWAY. Not to my knowledge. Now, taking up my second suggestion. The abolishment of fixed differences and the substitution therefor of commercial differences to be determined by the Secretary of Agriculture and based on the actual commercial differences prevailing in spot-cotton markets.

Now, the fixed difference is one of the great troubles with the New York Cotton Exchange. Two or three times a year they decide what the differences will be effective for the next three or four or five months ahead, while the actual differences fluctuate just as much as cotton does, and often times more so, and caused by things nobody can foresee. The weather has a great deal to do with it, because if they have a bad storm, right afterwards they have very low grades, and it will be cheaper if they have lots of bad weather; and if they have good weather, they will have higher grades, and get better prices, and therefore they ought to be set from day to day and from week to week as the actual commercial fluctuations take place between the grades.

Mr. RUBEY. Explain what you mean by differences.

Mr. CALLAWAY. On a contract for 10 bales of cotton, basis middling, they let you deliver any of the nine grades. There are now 23 grades on the New York Cotton Exchange, and they have a fixed difference for the grades delivered under the contract. What we want is for them to deliver at the commercial differences. For instance, if it is good ordinary that they deliver, which sells for 3 cents below basis middling, if they sell you basis middling at 12½ cents and deliver you good ordinary they would bill it to you at 9½ cents.

Mr. SLOAN. Is this objection you are speaking of on the New York Cotton Exchange duplicated on the New Orleans Cotton Exchange?

Mr. CALLAWAY. It used to be, but the New Orleans Cotton Exchange has adopted the Government standards and allows you to retender without re-certification; but there is one thing they do wrong which they should not do: They have variations from the Government standards. Generally they hold themselves out to the world that they have adopted the Government standards when in fact they have gone beyond that and have variations beyond each one of those standards. Is that not so, Mr. Glenny?

Mr. GLENNY. They base on the Government standards, and the deliveries are based on the Government standards.

Mr. CALLAWAY. But you deliver other cotton than the Government standards?

Mr. GLENNY. It is within the Government standards of cotton.

Mr. CALLAWAY. It is a change of the tinges or something like that down to them, which is a little different from the government standards, and you knock something off from them?

Mr. GLENNY. For the benefit of the southern producer.

Mr. CALLAWAY. You know all of the cotton exchanges work for the benefit of the producer, just like the missionaries to China?

Mr. GLENNY. You need not put it just that way.

Mr. CALLAWAY. I want you to put it like this.

Mr. GLENNY. But your proposition is to limit them to nine grades, and you would have a contract this year which would have been unworkable.

Mr. CALLAWAY. Well, we used to think we could not work under the Sherman law, but we have found out we could get along just as well.

Mr. HAWLEY. Do they have fixed differences in New Orleans?

Mr. CALLAWAY. No, sir; they have commercial differences, and settle on the differences in the New Orleans market.

Mr. LEE. One market could be manipulated, in other words?

Mr. CALLAWAY. It could be manipulated. For instance, if I would buy 5,000 bales of cotton at New Orleans and started taking it at the present commercial differences over what I bought, and suppose, say, that middling fair was 1 cent "on" when they started in to deliver, and suppose middling fair was a half a cent higher everywhere else in the South, as long as the man who went short that cotton can go out on the market and buy and deliver to me and get 1 cent premium on my contract, then New Orleans middling fair cotton is 1 cent "on," because the buyer is paying it, and even though the commercial difference is only a half a cent in Galveston, Houston, Atlanta, Mobile, and everywhere else a half a cent difference would be the right commercial difference, rather than the New Orleans difference. It is not by manipulation; it just happens that way. If you have the difference there a man taking up cotton, the buyer could get it by paying that margin, and he does, although that is not the real difference in that market, although that is the commercial difference in the balance of the belt.

I do not know whether I have made that clear to you or not. It is clear to me, but sometimes I get a thing so clear to myself that I can not explain it to anybody else.

Now, first, I would have standard Government grades; second, the abolishment of fixed differences; and my idea would be to let the department determine which eight towns, and change them every week if they wanted to. I have found that the Government is pretty good on everything they go at; they are very impartial and pretty reliable, and everything, from a \$20 gold piece down, with the Government's stamp on it, I am willing to accept. I believe they are better than the private individual.

Now, taking up my third proposition: Each contract or unit of 100 bales to call for an even-running delivery—that is, the entire 100 bales of one grade—the seller to have the privilege, however, of tendering mixed or assorted grade deliveries within the range of the standard Government grades, by paying a penalty of \$1 per bale to compensate

the buyer for handling mixed instead of even-running deliveries, but not more than one grade to appear on any one certificate of tendered cotton.

It is only fair that the buyer of cotton have an invoice or itemized bill of what he is paying for, which would be the effect of this provision. As it is now, in New York a man can deliver all or a mixed lot of these 23 different grades—3 top and bottom, 3 middling fair, 3 good ordinary, etc.—and send the whole range of them to you, and they do not identify them when they invoice the cotton; that is to say, here is a bill for 100 bales of cotton weighing 50,000 pounds; there are 1 bale of strict middling, 2 of fully middling, 4 of strict middling, 6 middling, 2 good middling tinged, etc. They do not tell you which bale is which, understand. There is no mark or identification table to it; there are no tags attached to it for each of those grades. It is like a butcher bringing you a bill just for beefsteak and porksteak and brain, etc., and he won't tell you what was bought each day. You would go after him, and you would want an itemized accounting.

Here is one of the bills I picked up in New York, which I think actually demonstrates the condition. Here are 14 different grades of cotton in that 100 bales. Now, they do not identify that 100 bales. They say there is one bale of strict middling in there, but I have got to go through the 100 bales and find it; they have no identification mark on it. It is just like a "pig in a poke." I think every bale should be tagged. It is the only place I know of where you buy a lot of mixed stuff, and you can not check it off from the bill. This is a cotton invoice for 100 bales of cotton, and there are 14 grades on it. Suppose I ship to you this 100 bales of cotton, and here are 4 bales of this, and 3 bales of that, and 2 bales of this, and 3 bales of that. I won't tell you which bale is which. You have got to find out yourself.

Mr. HAUGEN. How can you find out yourself?

Mr. CALLAWAY. There is no way.

Mr. SLOAN. Suppose you were suing on a breach of the contract; how would you show the correctness or the incorrectness of the classification?

Mr. CALLAWAY. I do not know, sir.

Mr. SLOAN. Could any cotton expert?

Mr. CALLAWAY. I do not know how he could. I would like to know from the gentleman here from the New York Cotton Exchange.

Mr. MARSH. I would like to say any gentleman taking up cotton in New York, and who knows cotton, can identify every bale the day he receives the cotton, because he receives a sample with every bale. It is delivered to him with a tag on the sample identifying the bale. If he does not know cotton, if he is going by the mere name, good middling or strict middling, or whatever it may be, he would not be able to identify the grade; but he receives a sample for every bale delivered to him, or every 100 bales delivered under the contract.

Mr. CALLAWAY. Does that sample have the mark number of the bale on it?

Mr. MARSH. Certainly.

Mr. CALLAWAY. I took up 5,000 bales, and I had no way of identifying the invoice with each bale in this way.

Mr. MARSH. That, I think, was some years ago.



Mr. CONE. Is that not 4 years old, Mr. Callaway?

Mr. CALLAWAY. Yes, sir; here are the certificates. They do not give any mark number. There is the certificate that goes with those bales. There are the bales. Here are the warehouse certificates, and if there is any mark number on that bale, on either one of these, you gentlemen can find it.

Mr. SLOAN. Do I understand you to say there is a number on this sample, and there is a corresponding number on the bale? And by taking the sample it would direct you immediately to the bale?

Mr. MARSH. Yes, sir.

Mr. SLOAN. In each case?

Mr. MARSH. In each case.

Mr. CALLAWAY. Is not that number the number of the individual certificate instead of the bale?

Mr. MARSH. On those, yes.

The CHAIRMAN. Have you changed your practice in that regard?

Mr. MARSH. My recollection is we changed that in 1911. I might state, for the information of the committee, that when cotton is tendered in New York a large sample is drawn from each bale. That large sample is divided into three parts, and on each part is put the tag indicating the bale. One sample goes immediately to the classification committee to be passed upon by the classification committee as to grade. The second sample is kept permanently—is immediately wrapped up and kept permanently to be used in case of an appeal—and the third sample is given to the deliverer of the cotton, who is compelled by the laws of the exchange, as soon as he makes delivery of the cotton, to pass it on to the receiver.

Mr. CALLAWAY. Then that is all right; that is all we ask for, only we ask you to make it a law so they can not change it by their rules.

Mr. CONE. It is a law.

Mr. CALLAWAY. Not by the United States Government?

Mr. CONE. Oh, no.

Mr. CALLAWAY. You change your laws. I have seen you change them up there; and if it is the United States law, then you can not change it. It is all right; it has come out just like I want it, and let us keep them there.

Mr. PARKER. There is nothing on that sample to indicate what grade covers it.

Mr. MARSH. A man who buys cotton is supposed to know cotton. We assume a person buying cotton knows cotton.

Mr. PARKER. You people might give the information to the exchange, but you won't give me the classification of that bill.

Mr. CALLAWAY. If he will give it to me that is just what I want to know. He has agreed to my proposition here, to tag and identify each bale. Is that right, Mr. Marsh; that is the present rule?

Mr. MARSH. That is the present rule.

Mr. CALLAWAY. You see no fault with it?

Mr. MARSH. I see no fault with it.

Mr. CALLAWAY. All right, we will drop that. Whenever you get a man to agree with you, talk about Irish potatoes.

The CHAIRMAN. Do you think that section 6 covers that proposition?

Mr. CALLAWAY. Which section is that?

The CHAIRMAN. At the top of page 5, subsection 6 of section 5. Read that into the record and see if it does.

Mr. CALLAWAY. No, sir. That is the thing I objected to when Mr. Parker was on the stand—oh, 6: "Provide that all tenders of cotton under such contract shall be the full number of bales involved in the contract, and that the person making the tender shall give to the person receiving the same five days' notice of the date of delivery, which notice shall state the grade of each individual bale to be delivered, with adequate identification thereof."

I think that is all right.

The CHAIRMAN. With adequate identification thereof?

Mr. CALLAWAY. Yes, sir.

The CHAIRMAN. You think that covers it?

Mr. CALLAWAY. Yes, sir.

The CHAIRMAN. Do you agree to that Mr. Parker? Do you think that covers it?

Mr. PARKER. Yes.

Mr. HAUGEN. Mr. Chairman, I think we should have these invoices printed into the record.

Mr. MARSH. Mr. Chairman, may I suggest as these are four years old and do not represent the present status of affairs, that there should be some notation in the record to the effect that they do not represent the correct status of affairs at the present time.

Mr. CALLAWAY. I am willing Mr. Marsh should state that.

The CHAIRMAN. With that explanation, Mr. Marsh, you have no objection?

Mr. MARSH. Not the slightest.

The CHAIRMAN. Without objection they will be inserted in the record.

Mr. CALLAWAY. And with the further statement, Mr. Chairman, that they agree with my proposition and that is now the rule of the exchange.

(The invoices above referred to are as follows:)

No. S 49.

NEW YORK, May 2, 1910.

Hopkins, Dwight & Co. to Craig & Jenks, Dr.

27 William Street.

Terms cash. Payable by certified check.

Marks A.	914.....	28	Store.	Au. D. 13.....	9
	15.....	24		26.....	99
	16.....	10			
	17.....	5			
	3600.....	26			
	1.....	9			
	3.....	2			
	4.....	3			
	10.....	1			

108B/C

108B/C

108 B/C, weighing 49,778 lbs.

Less allowance, 88 lbs. net, 49,690 lbs., @ 14.50 ..... 7,205.05

½ cost inspection, classification, and certificate, @ 12½c..... 13.50

Premium for staple..... 7,218.55

For grade, 46.48 off middling..... 213.85

Storage and labor, paid to 4/4 allowance..... 21.60

235.45

Paid on account, ..... Amount due..... 6,983.10

## CLASSIFICATION.

Bales.	Above middling.	100ths.	Bales.	Below middling.	100ths.
	Fair.....@	-----		Middling.....@Basis.	-----
	Strict middling fair.....@	-----	2	Good middling tinged, 1.1@	-----
	Middling fair.....@	-----	4	Barely middling, 3.1.....@	12 48
	Strict good middling, 5.....@	-----	10.2	Strict low middling, 10.5.	-----
	Fully good middling.....@	-----		12.1.....@	25 475
	Good middling, 10.22.....@	-----	22	Fully low middling, 6.7.	-----
	Barely good middling.....@	-----		5.2.1.1.....@	42 924
1	Strict middling, 19.1.6.6.....@	22 22	11	Low middling, 1.4.1.4.1.....@	60 660
2	Fully middling, 1.1.....@	-----	7	Strict good ordinary, 1.	-----
	Strict good middling tinged,	-----		2.3.1.....@	1.05 735
	4.3.....@	11 22	4	Good ordinary, 2.1.1.....@	1.75 700
6	Middling, 4.2.....@Basis.	-----	9	Strict middling tinged, 3.	-----
	Good middling tinged.....@	-----		1.4.1.....@	15 135
		-----	10	Middling tinged, 1.3.4.2.....@	25 250
		-----	9	Strict low middling	-----
		-----		tinged, 2.5.1.1.....@	60 540
		-----	1	Low middling tinged, 1.....@	1.50 150
		-----	1	Middling stained, 1.....@	75 75
9	Av'g. wgt., 460.10; total above mid-	-----		Total below middling.....	4,692
	dling.....@	44 99			

Total on middling.....  
Total off middling..... 4,692

4,648

E. &amp; O. E.

No. 34. 108 B/c. 49,778 lbs. Elm City.

No. 28.....99 B/c.  
13.....9

(Stamped to Apr. 4, 1910.) 8323.

## NEW YORK COTTON EXCHANGE.

## OFFICE OF INSPECTOR IN CHIEF.

No. 225153.

28 Bales compressed.

....Bales uncompressed.

I hereby certify that (28) twenty-eight bales of cotton described in storage receipt No. 17854 of the American Dock & Trust Co. 26, dated March 30, 1910, with which receipt this certificate is identified as lot No. A-914, mark, P E II, 28 bales were classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire April 1, 1911.

This certificate was delivered by the inspection bureau April 18, 1910. 12,526 pounds weight.

## GRADES.

....Fair.	....Barely good middling.	6 Fully low middling.	1 Good mid. tinged.
....Strict middling fair.	1 Strict middling.	1 Low middling.	3 Strict mid. tinged.
....Middling fair.	1 Fully middling.	....Strict good ordinary.	1 Middling tinged.
....Strict good middling.	4 Middling.	....Good ordinary.	....Strict low mid. tinged.
....Fully good middling.	....Barely middling.	....Strict gd. mid. tinged.	....Low middling tinged.
....Good middling.	10 Strict low middling.		....Middling stained.

Checked by H. J. M.

And that the grades as specified above are correct.

(Stamped:) Duplicate samples asked for May 12, 1910.

New York, April 1, 1910.

(Canceled.)

Inspector in Chief.

This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

(Stamped to April 4, 1910.) 8323.

## NEW YORK COTTON EXCHANGE.

OFFICE OF INSPECTOR IN CHIEF.

No. 225130.

24 bales compressed.

....bales uncompressed.

I hereby certify that (24) twenty-four bales of cotton described in storage receipt No. 17855 of the American Dock & Trust Co., 26, dated March 30, 1910, with which receipt this certificate is identified as lot No. A-915, mark, P E II, 24 bales were classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire April 1, 1911.

This certificate was delivered by the inspection bureau April 13, 1910. 11,791 pounds weight.

## GRADES.

....Fair.	....Barely good middling.	7 fully low middling.	....Good middling tinged.
....Strict middling fair.	....Strict middling.	4 low middling.	1 strict middling tinged.
....Middling fair.	1 fully middling.	1 strict good ordinary.	....Middling tinged.
....Strict good middling.	2 middling.	....Good ordinary.	....8 <sup>th</sup> low mid. tinged.
....Fully good middling.	3 barely middling.	....Strict good middling	....Low middling tinged
....Good middling.	5 strict low middling.	tinged.	....Middling stained.

Checked by M. J. P.

And that the grades as specified above are correct.

New York, April 1, 1910.

(Stamped:) Duplicate samples asked for May 12, 1910.

(Canceled.)

.....  
Inspector in Chief.

This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

(Stamped to Apr. 4, 1910.)

## NEW YORK COTTON EXCHANGE.

OFFICE OF INSPECTOR IN CHIEF.

No. 223946.

10 Bales compressed.

....Bales uncompressed.

I hereby certify that (10) ten bales of cotton described in storage receipt No. 17856 of the American Dock & Trust Co. 26, dated March 30, 1910, with which receipt this certificate is identified as lot No. A-916; mark, P E T. 10 bales were classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire April 1, 1911.

This certificate was delivered by the inspection bureau April 18, 1910. 4,522 pounds weight.

## GRADES.

....Fair.	2 Good middling.	2 Strict good ordinary.	3 Middling tinged.
....Strict middling fair.	....Strict middling.	....Good ordinary.	2 Strict low M. tinged.
....Middling fair.	....Middling.	....Strict good M. tinged.	....Low middling tinged.
....Strict good middling.	....Strict low middling.	1 Good Mid. tinged.	....Middling stained.
	....Low middling.	4 Strict Mid. tinged.	

Checked by H. J. M.

And that the grades as specified above are correct.

New York, April 1, 1910.

(Stamped:) Duplicate samples asked for May 12, 1910.

This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

(Cancelled.)

.....  
Inspector in Chief.

(Stamped to Apr. 4, 1910.)

NEW YORK COTTON EXCHANGE.

OFFICE OF INSPECTOR IN CHIEF.

No. 223913.

5 bales compressed.

.... bales uncompressed.

I hereby certify that (5) five bales of cotton described in storage receipt No. 17857 of the American Dock & Trust Co., 26 dated March 30, 1910, with which receipt this certificate is identified as lot No. A-917, mark, P E T, 5 bales were classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire April 1, 1911.

This certificate was delivered by the inspection bureau April 18, 1910. 2,255 pounds weight.

GRADES.

....Fair.	....Good middling.	2 Strict good ordinary.	....Middling tinged.
....Strict middling fair.	....Strict middling.	2 Good ordinary.	....Strict low M. tinged.
....Middling fair.	....Middling.	....Strict good M. tinged.	....Low middling tinged.
....Strict good middling.	....Strict low middling.	....Good Mid. tinged.	....Middling stained.
	1 Low middling.	....Strict Mid. tinged.	

Checked by H. J. M.

And that the grades as specified above are correct.

New York, April 1, 1910.

(Canceled.)

.....  
Inspector in Chief.

This certificate not valid unless signed by either the inspector in chief, or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

(Stamped:) Duplicate samples asked for May 12, 1910.

(Stamped to Apr. 4, 1910.)

NEW YORK COTTON EXCHANGE.

OFFICE OF INSPECTOR IN CHIEF.

No. 225247.

26 Bales compressed.

....Bales uncompressed.

I hereby certify that (26) twenty-six bales of cotton described in storage receipt No. 17919 of the American Dock & Trust Co. 26, dated March 30, 1910, with which receipt this certificate is identified as lot No. A-3600, mark, H E I, 26 bales were classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire April 2, 1911.

This certificate was delivered by the inspection bureau April 22, 1910. 11,762 pounds weight.

## GRADES

....Fair.	....Barely good mid.	5 Fully low middling.	....Good mid. tinged.
....Strict middling fair.	....Strict middling.	4 Low middling.	1 Strict mid'g tinged.
....Middling fair.	....Fully middling.	3 Strict good ordinary.	4 Middling tinged.
....Strict good middling.	....Middling.	1 Good ordinary.	5 S't low mid. tinged.
....Fully good middling.	....Barely middling.	....Strict gd. mid. tinged.	1 Low middling tinged
....Good middling.	1 Strict low middling.		1 Middling stained.

Checked by J. J. C.

And that the grades as specified above are correct.

New York, April 2, 1910.

(Stamped:) Duplicate samples asked for May 12, 1910.

(Canceled.)

This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

.....  
Inspector in Chief.

(Stamped to Apr. 4, 1910.)

## NEW YORK COTTON EXCHANGE.

## OFFICE OF INSPECTOR IN CHIEF.

No. 225295.

9 Bales compressed.

....Bales uncompressed.

I hereby certify that (9) nine bales of cotton described in storage receipt No. 18,007 of the American Dock & Trust Co. 13, dated March 30, 1910, with which receipt this certificate is identified as lot No. A-3601; mark S E T. 9 bales were classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire April 2, 1911.

This certificate was delivered by the inspection bureau April 22, 1910. 4,213 pounds weight.

## GRADES.

....Fair.	....Barely good mid.	2 Fully low middling.	....Good mid. tinged.
....Strict middling fair.	....Strict middling.	1 Low middling.	....Strict mid. tinged.
....Middling fair.	....Fully middling.	1 Strict good ordinary.	2 Middling tinged.
....Strict good middling.	....Middling.	....Good ordinary.	1 S't low mid. tinged.
....Fully good middling.	....Barely middling.	....S't gd. mid. tinged.	....Low mid. tinged.
....Good middling.	2 Strict low middling.		....Middling stained.

Checked by J. J. C.

And that the grades as specified above are correct.

New York, April 2, 1910.

(Stamped:) Duplicate samples asked for May 12, 1910.

This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

(Canceled.)

.....  
Inspector in Chief.

Stamped to April 4, 1910.

NEW YORK COTTON EXCHANGE.

OFFICE OF INSPECTOR IN CHIEF.

No. 225296.

2 Bales compressed.  
....Bales uncompressed.

I hereby certify that (2) two bales of cotton described in storage receipt No. 18006 of the American Dock & Trust Co., 26, dated March 30, 1910, with which receipt this certificate is identified as lot No. A-3603, mark K A M, 2 bales were classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire April 2, 1911.

This certificate was delivered by the inspection bureau April 22, 1910. 995 pounds weight.

GRADES.

....Fair.	....Barely good middling	1 Fully low middling.	....Good middling t'ged.
....Strict middling fair.	....Strict middling.	....Low middling.	....Strict mid'g tinged.
....Middling fair.	....Fully middling.	....Strict good ordinary.	....Middling tinged.
....Strict good middling.	....Middling.	....Good ordinary.	....S't low mid. tinged.
....Fully good middling.	....Barely middling.	....Low middling tinged.	....Middling stained.
....Good middling.	1 Strict low middling.	....Strict gd. mid. tinged.	

Check by J. J. C.

And that the grades as specified above are correct.

New York, April 2, 1910.

(Stamped:) Duplicate samples asked for May 12, 1910.

(Canceled.)

.....  
*Inspector in Chief.*

This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

(Stamped to Apr. 4, 1910.) 8223.

NEW YORK COTTON EXCHANGE.

OFFICE OF INSPECTOR IN CHIEF.

No. 225297.

3 bales compressed.  
....bales uncompressed.

I hereby certify that (3) three bales of cotton described in storage receipt No. 17923 of the American Dock & Trust Co. 26, dated March 30, 1910, with which receipt this certificate is identified as lot No. A3604, mark PET 3 bales were classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire April 2, 1911.

This certificate was delivered by the inspection bureau April 22, 1910. 1,224 pounds weight.

GRADES.

....Fair.	....Barely good mid.	1 Fully low middling.	....Good mid. tinged.
....Strict middling fair.	....Strict middling.	....Low middling.	....Strict mid'g tinged.
....Middling fair.	....Fully middling.	....Strict good ordinary.	....Middling tinged.
....Strict good middling.	....Middling.	1 Good ordinary.	1 S't low mid. tinged.
....Fully good middling.	....Barely middling.	....Low mid. tinged.	....Middling stained.
....Good middling.	....Strict low middling.	....Strict gd. mid. tinged.	

Checked by J. J. C.

(Stamped:) Duplicate samples asked for May 12, 1910.

And that the grades as specified above are correct.

New York, April 2, 1910.

This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

(Canceled.)

.....  
*Inspector in Chief.*

Stamped to April 4, 1910.

NEW YORK COTTON EXCHANGE.

OFFICE OF INSPECTOR IN CHIEF.

No. 225303.

1 Bale compressed.

.... Bales uncompressed.

I hereby certify that (1) one bale of cotton described in storage receipt No. 17929 of the American Dock & Trust Co., 26, dated March 30, 1910, with which receipt this certificate is identified as lot No. A-3610, mark C O X, 1 bale was classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire April 2, 1911.

This certificate was delivered by the inspection bureau April 22, 1910. 490 pounds weight.

GRADES.

....Fair.	....Barely good middling.	....Fully low middling.	....Good mid. tinged.
....Strict middling fair.	....Strict middling.	....Low middling.	....Strict mid. tinged.
....Middling fair.	....Fully middling.	....Strict good ordinary.	....Middling tinged.
....Strict good middling.	....Middling.	....Good ordinary.	....Strict low mid. tinged.
....Fully good middling.	1 Barely middling.	....Strict gd. mid. tinged.	....Low middling tinged.
....Good middling.	....Strict low middling.		....Middling stained.

Checked by J. J. C.

And that the grades as specified above are correct.

(Stamped:) Duplicate samples asked for May 12, 1910.

New York, April 2, 1910.

(Canceled.)

.....  
*Inspector in Chief.*

This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

Mr. CALLAWAY (continuing). Now, another thing: I think that every spot market in the South that puts out printed quotations should put them out only on Government grades. For instance, Augusta, Ga., calls a good middling a middling. Savannah, Ga., calls middling middling. Augusta, Ga., usually quotes half a cent above Savannah, when it ought to be cheaper. When a man has one standard grade he can not get confused. Let them make the quotation on the standard, and then let the private man sell any cotton wants to by type; but when a spot market publishes and prints their quotations on "spots" it should mean that they shall be of the 10 government grades; instead of calling it middling and selling good middling, make it have one standard instead of 8 or 10 standards, and there should not be a dozen places in the South quoting middling



cotton when they do not mean middling cotton. My idea is to print the quotations to the buyer and they should all be printed, based on the same grade. I think that looks reasonable.

My next proposition is that each bale of cotton should be separately marked and tagged, and identifiable as to weight, grade, and number, and date of its classification, and no recertification will be necessary for such lots as may be retendered. That is, if you take up cotton in New York and want to retender, instead of retendering the whole lot, if you get 100 bales of mixed lot, and you want to use 50 of them and want to retender 50, that you can retender that 50 without recertification and having to pay a fee for it on those 50 bales. That I could take out any bales I wanted to use and could tender back those I did not want to use without paying those charges and without reclassification.

Now, New Orleans does this——

Mr. GLENNY. You want to take 1 bale out and tender 99 back?

Mr. CALLAWAY. And tender them without any cost.

Mr. GLENNY. You get your cost back?

Mr. CALLAWAY. I think we ought to have some law. We are without any law on the New Orleans Cotton Exchange to-day in that regard.

The CHAIRMAN. Is there any provision in this bill that does that, Mr. Callaway?

Mr. CALLAWAY. I do not think there is; I think it ought to be put in. On this other one up there, there was not much kick about that, this even-running 100 bales, which is on the idea that if a man sells you 100 bales of basis middling and then pays the commercial difference off, he has to deliver you 100 bales of the kind he does deliver you, instead of 10 bales of each kind; and if he delivers you a mixed lot, he is to be penalized for that mixed delivery, because it will cost you something to reassort it and get it into regular lots. That is done by the stock exchange. They have odd-lot men; and at any time you want to sell odd lots, you pay a charge and he can do it by paying a slight premium. And it seems to me cotton ought to be an even-running delivery on a contract for 100 bales, and if a man delivers a mixed lot he ought to pay a penalty to pay for the sorting and making it merchantable.

The CHAIRMAN. That would not increase the cost?

Mr. CALLAWAY. I do not think so.

Mr. GLENNY. Mr. Callaway, if I tender you cotton with a certificate, each certificate bearing a tag number, that tag number corresponding to the grade of cotton whatever it may be, and a privilege is given to you to retender that cotton on the market, without violating the certificate in any way, no matter how many bales you take up, and your expense for recertification be returned by the buyer at the next time, would you be put to any extraordinary inconvenience?

Mr. CALLAWAY. You would have to take up more cotton to get what you wanted.

Mr. GLENNY. You might get one in the first instance.

Mr. CALLAWAY. I understand that, but you know the result in this country: You take a hundred mixed bales with the kind of machinery in the South, and the machines are not fitted for and you can not use 10 mixed lots; but if you give all good ordinary, I

could find a mill able to spin that one grade. That is more salable than 10 bales of 10 different grades.

Mr. GLENNY. You spoke of the expenses you would be put to. Where do the expenses come in?

Mr. CALLAWAY. I speak of the expense to the man who takes up those odd lots.

Mr. GLENNY. You would not have that; the cotton exchange has done that.

Mr. CALLAWAY. I understand, but you have to dispose of the bales you can not use.

Mr. HAUGEN. Would you have any cotton there in those instances if you tendered back?

Mr. CALLAWAY. Not if you tendered back.

Mr. GLENNY. I do not understand—

Mr. CALLAWAY. If I take up the contract and have gotten nothing, I have lost my time for the day.

Mr. GLENNY. But you take 5 cents a bale more than the man who sells.

Mr. CALLAWAY. But if it is a hundred-bale contract, and I get an even running lot, I think it would be better than paying the penalty.

Mr. GLENNY. That is what I said just now. I called Mr. Callaway's attention to the fact that on the 100 bales of uneven-running cotton, you do not lose if you get one bale you want; where there is any mixed lot, you get a certain amount you want?

Mr. CALLAWAY. I would rather not get any bale I wanted than to get 100 bales delivered where there are 10 bales which would suit me perfectly and the other 90 would not.

Mr. GLENNY. Are you building up a monopoly?

Mr. CALLAWAY. No, sir; I am trying to break up monopoly.

Mr. GLENNY. That would be about the best way to build for a monopoly.

Mr. CALLAWAY. I do not think so. I think it would raise the price of your contract probably five points, and that is what I am trying to do, so as to raise the price of futures to near the price of actual cotton, and the only way to make any cotton is to make delivery in cotton—

Mr. GLENNY. Have you not that privilege now?

Mr. CALLAWAY. Which privilege?

Mr. GLENNY. The question was asked of Mr. Parker to-day, Suppose a man bought a white horse and he got a black horse. You can buy the white horse and you can find every 100 bales of even-running middling, strict middling, or what not from a man like Mr. Hayne or any man who hedges himself in the contract market in order that he may not suffer from the fluctuations of the market. You know exactly, then, not only the grade of cotton you want and the body and staple, and you make another contract so as to protect yourself, as an insurance policy, which it is per se. And I want to say here now I believe the ideal cotton contract would be that contract upon which there never was a bale delivered and upon which there never was a bale received. That would be, to my mind, certainly the ideal contract, a contract which would not be susceptible of the slightest manipulation either by the seller or the buyer. All would run even tenor from the beginning to end and would not call for delivery, because there would be no object in delivering. It would simply

pass current as does an insurance policy upon which there has been no fire and no loss and you have simply paid for your insurance, and that, I think, would be the ideal contract. You are dealing now with a narrowing of the grades and a narrowing of the delivery of cotton, a contract which would be so susceptible of manipulation that it would not be workable.

Mr. CALLAWAY. That is just what the railroads said when they formed the Interstate Commerce Commission. They said they could not run the railroads when they formed the Interstate Commerce Commission, but now they are asking the commission to save them.

Mr. GLENNY. Mr. Callaway, do not put me in the position of opposing the United States Government in what it is attempting. Your remark probably would lead to that conclusion. I stand behind a constructive bill with Government supervision.

Mr. CALLAWAY. I do not see how you can make the futures stay as high as spot cotton if you let a man deliver mixed grades and let all the cotton buyers of the country dump all the culls on the exchange, which makes the price of futures.

Mr. MARSH. Mr. Chairman, I do not like to interrupt, but this is a very fundamental point, and if I may, I would like to ask Mr. Callaway what penalty he would suggest on a mixed bill?

Mr. CALLAWAY. Fifty cents a bale or \$1 a bale or whatever you find is necessary to get somebody to take them up and match them. They would likely have a mixed-cotton house in New York, which will take them up and match them.

Mr. MARSH. Mr. Chairman, I think that it is pretty familiar to anybody who is familiar with the cotton trade—

Mr. CALLAWAY. I am familiar with the cotton trade.

Mr. MARSH (continuing). That the effect of this would be to make a contract of sale 50 cents a bale higher.

Mr. CALLAWAY. I don't; that is the idea.

Mr. MARSH. All deliveries would be exactly what they are now, and the buyer would pay the penalty.

Mr. CALLAWAY. If you do not think 50 cents a bale is enough to pay people to match them up, make it a dollar a bale. If you get the pay high enough, somebody will match them.

Mr. MARSH. I think Mr. Callaway is economically wrong there, and I think the actual working out of the matter would be that the price of the contract will sell as much above what it now sells, let us say, as the amount of the penalty, even if Mr. Callaway makes the penalty \$10 or \$20 a bale, and that the deliveries will be exactly what they are now.

Mr. CALLAWAY. That is what my judgment is—that if you pass the bill then future cotton will sell in New York cheaper than the price of spot cotton of the South, plus the freight and cost of getting it to New York.

Mr. WEBB. Mr. Callaway, as a merchant buying cotton from the farmer, I have got to buy anything he brings?

Mr. CALLAWAY. Certainly. You are a jobber in cotton. I want to make a place for you to make 50 cents a bale matching this up, too.

Mr. WEBB. And that 50 cents comes out of the farmer?

Mr. CALLAWAY. No, sir. Mr. Marsh has just said if you make any sale 10 points higher the buyer pays it and you both can not be

right, and you and Mr. Marsh get together and find out which side you are going to take; you must not take both sides and give me the middle.

Mr. WEBB. I buy all cotton brought to me by the farmers.

Mr. CALLAWAY. If either one of you agree that the other is wrong, I will argue it with you, but you can't take both sides of it.

Mr. WEBB. I have nothing to do with what Mr. Marsh says.

Mr. CALLAWAY. Well, Mr. Marsh was assuming to contradict this, and Mr. Marsh says if you make the sale 10 points higher it would be paid by the buyer, and you say it would be paid by the farmer.

Mr. WEBB. I am not talking about the contract; I am a merchant and have to pay 50 cents higher in New York or New Orleans, and I am going to get that somewhere, and if the farmer sells me middling cotton and brings me jinnys and all that stuff, I am going to make him pay for them.

Mr. CALLAWAY. That is your business; you buy there. But don't you match cotton up when you are sending it to the mills? You don't send 100 bales of different grades?

Mr. WEBB. I send 100 bales even running, and I charge——

Mr. CALLAWAY. You charge me or charge the farmer?

Mr. WEBB. I charge him.

Mr. CALLAWAY. Take either side you want to, but I won't allow you to take both sides.

Mr. WEBB. If I send cotton to New York and I know there are 10 different grades in it, and I know they are going to charge me, therefore, I pay 50 cents less to the farmer.

Mr. CALLAWAY. No, sir; Mr. Marsh says you sell 10 points higher and make the buyer pay for that.

Here is another thing. I am not an expert, gentlemen. The tender of cotton on pro forma bills to be prohibited. Trading to stop in each month's delivery on the first day of that month, the seller giving notice on the first day of each month of his tenders, which shall contain detailed description and identification of each bale, the buyer to accept tender the same day made and to pay for the cotton within three days thereafter. That is, No. 6 in my memorandum. You should prohibit that.

In May, 1910, Mr. Parker took up some cotton in New York and they gave what they called a pro forma bill that has not been classified. He got a bill for a thousand bales of cotton and received no classification. You pay on the pro forma bill and sometimes within a month or two months the New York Cotton Exchange classifies this cotton, at which time they render you a bill of what the total is, and you immediately pay; that is, you pay, say, less the difference. If you have taken that cotton out and worked it in the meantime you lose your right to ask for a claim or arbitration of the committee, and Mr. Parker has to have the cotton held in New York, at his expense, one or two months after he paid for it, and he has to pay interest and insurance and storage on it, and it was one or two months before he used that cotton; or if he used it before it was classed he should waive his right to a claim. Would that be it?

Mr. PARKER. I paid in the early part of May and did not get a certification until the last part of July, and in the meantime did not get anything in and was losing the storage and interest and insurance.

The CHAIRMAN. Is that covered in subsection 6?

Mr. CALLAWAY. Have you put that in subsection 6?—trading to stop in each month's delivery on the 1st day of that month, the seller giving notice on the 1st day of each month of his tenders, which shall contain a detailed description and identification of each bill, the buyer to accept tender the same day made and to pay for the cotton within three days thereafter. Now, the seller has 30 days in which to tender the cotton at his, the seller's, option. On the last day of April the seller can tender the cotton to the buyer or can tender it twice a week for the balance of the month, or he can hold it as long as he wants, to tender whenever he wants to, and when he does, if you do not pay for it, he can sell you out. My idea is to accept on the same day, and the man who has sold the cotton will be ready with the bill, and the man who is going to buy ought to have his banking arrangements made. The ship may catch on fire or there may be a railroad wreck, but he has agreed to take the risk of that, just like the buyer takes the risk of the bank failing, and if this man's ship sinks or the cotton burns up, that is his loss, and I do not think it ought to be put on the buyer.

The CHAIRMAN. Will this language meet that: "The person making the tender shall give to the person receiving the same five days' notice of the date of delivery"?

Mr. CALLAWAY. My idea is they cease trading on the 1st day of the month, and instead of giving the seller 30 days to deliver in and at that at any time in the month the seller wants to; let the seller deliver on the 1st of the month and let the buyer pay for it within three days. But don't say to the seller as at present: "You can deliver any day of the month of April," and the buyer has got to take it at any time you see fit to deliver. Stop the trading for that month on the 1st day of the month, and let the seller present an itemized bill of cotton he has sold and let the buyer accept that on the same day and pay within three days after acceptance.

Mr. TAYLOR. How are you helping the buyer?

Mr. CALLAWAY. As it is now, the buyer has got to keep the money on deposit, as the seller might tender his cotton to the buyer at any minute, and he has got to take it up.

Mr. TAYLOR. According to your scheme they close this contract on the first of the month.

Mr. CALLAWAY. The seller may close on the first of the month. What is good for the goose is good for the gander.

Now, my next suggestion: No cotton which has been certificated for a longer period than one year to be tenderable or recertificated. This will automatically force the cotton accumulated at New York into legitimate channels of trade, and not permit its being held there indefinitely in restraint of trade as at present. It would force the speculative seller of cotton to go into the open market each season and buy the cotton that he is called upon to deliver, and as he would have to pay the normal market price for it; it would make the price of cotton futures a reflection of values in actual cotton, and therefore a fair hedge to farmers, merchants, manufacturers, and all other legitimate cotton interests, which is the proper function of the cotton exchange, and for which it is supposed to exist.

That is, after a bale of cotton has been certificated for one year, if it is not good enough for anybody to take up and use, then throw it out like you would one of the "chalk marbles." When the outside

wears off and shows the chalk, the boys won't let you put it in any more; they won't let you put it up against their "white alley."

Cotton has character just like a man has. A man doesn't prove character; just because there are two men 40 years old with blue eyes and dark hair they don't have the same character. I have seen a good man stand that description and I have seen some of the greatest rascals I ever saw who would answer that description. All cotton of the same grade is not the same. There may be good cotton, there may be good white staple which is a "runt" and a "degenerate;" and everyone shipping that cotton to the cotton exchange knows it is not good strong cotton or he would not ship it to the cotton exchange and put 25,000 bales a year there which few mills can use; and men do not want to take it. After it once stays there a year, nobody wants to take it and then let it lay to be retendered again. They don't want the "runt" or "chalk marble," and they throw it out if it is not a good bale of cotton.

Mr. TAYLOR. Why would anybody want to go out and buy that sort of stuff?

Mr. CALLAWAY. They don't want to.

Mr. TAYLOR. Why do they go short then?

Mr. CALLAWAY. Spinners in October, November, and December sell goods for next spring and summer delivery. They often buy May cotton in New York as a hedge against that sale.

Mr. TAYLOR. I understand that.

Mr. CALLAWAY. You do not understand that or you would not ask the question. I want to explain it to you. I may have to explain it to you in my own way.

Mr. TAYLOR. All I want to know is why the buyers are going to buy these webs?

Mr. CALLAWAY. That is what the webs are made for. The smart men make the webs, the spiders make the webs, and the little spinner will sell goods in October, November, and December and buy May cotton to hedge. About that time May cotton is selling in the South at 25 points on May. On account of the big differences and the 23 different grades and the sticking of "runts" in, they can deliver, we will say, if they allow you a cent off for a certain grade of cotton in New York, that is actually selling in the South at 3 cents off, and they have fixed the difference of a cent off, and if I buy cotton at 13 cents and take that up I have got to pay 12 cents when I know down in the South or anywhere cotton is sold at 3 cents off. Is that clear? That means the spider that has made this web you are talking about has fixed a web that has caught the little individual scattered fly, you understand, and they will sell that cotton for 13 cents and actual cotton may not go down a cent, and they may put May down 2 cents, and then after the bunch of runts are thrown out it goes up. You do not want to take that cotton, and they make it just as disagreeable in every way possible for you. They try to find out the cotton you can not use, and they are pretty sure to let you have that.

Mr. TAYLOR. If this condition is so bad, why do you trade with a concern of that character?

Mr. CALLAWAY. You have got to trade. When the Standard Oil Co. was so bad you did not want to trade with them, but you had to buy oil; we had to have light. I am in favor of the exchange; I think we ought to have it so as to insure the farmer, you understand.

I am not in favor of abolishing the exchange; I am in favor of regulating it.

Mr. TAYLOR. Do you mean to tell me that these merchants who have to buy cotton, if this condition is as bad as you describe it, can not get together and deal with somebody else? Why do they have to go into that web?

Mr. CALLAWAY. Because that is the great trading mart of the world, just like New York has been the great money mart and have had their underground pipe lines running into the money market. This regional bank law will stop that.

Mr. TAYLOR. You have got to turn all into jelly fishes and turn them inside out.

Mr. CALLAWAY. No, sir; I am going to stop the big fish eating up the little fishes. It is not right, and you big fish ought to want to protect the little ones, instead of eating them up.

Mr. HAUGEN. The facts of the matter is the skinner has got to have insurance, and he pays the price.

Mr. CALLAWAY. Yes.

Mr. HAUGEN. Now, then, what is your estimate as to the price under present conditions? What is the cost of this insurance, the cost of hedging?

Mr. CALLAWAY. We pay \$15 a hundred bales as brokerage to the broker. The broker gets \$15 a hundred for his commission, you understand, and then if they will make a contract there that will follow the spot price of cotton and you have to pay the broker insurance of 15 cents a bale. As it is now, I have known people to lose \$10 a bale on hedging. Is that right, Mr. Parker?

Mr. PARKER. Yes.

Mr. HAUGEN. What is the loss there under present conditions?

Mr. CALLAWAY. Under present conditions on the exchange.

Mr. HAUGEN. Take a transaction of last fall up to the present time. What is the cost?

Mr. CALLAWAY. If a man bought hedges last fall at 14 cents and was closed out on March 9 at 12½ cents, he has lost 2½ cents a pound, which is \$12.50 a bale.

Mr. HAUGEN. Take a single bale.

Mr. CALLAWAY. The commission is only 15 cents a bale. It does not amount to anything.

Mr. HAUGEN. It is so much a pound, so much commission?

Mr. CALLAWAY. The commission is all right. It used to be 10 cents; but to-day on account of the difference in the cost of living it has gone up. There is no objection to that. Labor is worth more.

Mr. SLOAN. Ought it to be reduced in time?

Mr. CALLAWAY. No, sir; I believe it is all right. The 15 cents never hurt anyone. It is this \$12.50 that kills you.

Mr. HAUGEN. You stated a moment ago the spot price was half of the price for May.

Mr. CALLAWAY. I said this, that last November cotton sold at about 14 cents. That is an illustration. On March 9 New York future cotton sold for about 11½ cents. On the same day spot cotton sold for 14 cents. That is your New York futures depreciated 2½ cents, but yet the raw material has not depreciated in value, and you have lost \$12.50 per bale.

Mr. HAUGEN. Did I understand you to say spot was 15 or 25 cents above the future price of the market?

Mr. CALLAWAY. No, I did not say spot was 15 or 25 cents above the future price.

Mr. HAUGEN. You called attention to the difference.

Mr. CALLAWAY. In the fall of the year, and this is in the fall of the year when I bought future cotton, the price of spot cotton was 15 or 25 points above the March price.

Mr. HAUGEN. The cost of hedging is 3 points, you mean?

Mr. CALLAWAY. Yes.

Mr. HAUGEN. Now, then, we have the expense of insurance you referred to?

Mr. CALLAWAY. And that amounts to 20 per cent of the value of the cotton, and there is nobody making 20 per cent on the mill turn over that I have heard of. That is a very important thing.

Taking up my suggestion No. 8, we recommend a tax of 5 cents per 100 bales on cotton traded in according to the provisions of the bill to regulate the exchanges, and a tax of \$5 per bale on any sales on contract not conforming thereto, payment of the tax to be evidenced by stamps affixed to the contracts.

Now, then, the tax will make your record of how much is being traded in. You get that record automatically. When you get a cancellation of the stamps at the end of the month, the collection of that tax will give the record; \$5 a bale will make it prohibitive; 5 cents a bale will pay a great deal more than the expense of handling this.

Mr. MARSH. May I ask there how the record is to be completed of the transactions in Liverpool, Bremen, and Havre?

Mr. CALLAWAY. I guess they would tax anybody in America who buys cotton in a foreign country, and let him pay a tax, and this may stop straddlers. I think you ought to stop these big straddle operations.

Mr. MARSH. Mr. Chairman, I have no reference to straddling operations at all. I have reference to straight-out hedging operations, which will of course be carried on in Liverpool and Bremen and Havre. And although there is a provision in the bill that the tax shall attach to those transactions, I have tried by the exercise of imagination to find out exactly how the Government of the United States is going to compel the attachment of a stamp to a contract made in Liverpool or in a contract made in Bremen or a contract made in Havre, so, as Mr. Callaway says, to keep track of the amount of hedging and similar transactions connected with the marketing and distribution of the American cotton crop.

The CHAIRMAN. I want to call to your attention, if you will permit me, Mr. Marsh, in that connection, that in the matter of the sale of meats to foreign countries we do that very thing. We attach a stamp at the port of exportation. I take it we could do the same thing here.

Mr. MARSH. This is a stamp to be attached to the contract, not to the cotton.

The CHAIRMAN. Well, it could be easily collected at the office of your cable broker, couldn't it?

Mr. MARSH. I should say not. I shall have more to say on that subject, however.



Mr. HARRISON of Mississippi. Mr. Chairman, may I ask the gentleman a question? I want to ask Mr. Marsh one question. Do I understand you to say that in the event Congress should wipe out the exchanges in New York and New Orleans, that the gambling in futures might be transferred to the exchanges of Liverpool, Bremen, and Havre?

Mr. MARSH. Of course I can not submit to calling it gambling.

Mr. HARRISON of Mississippi. I mean speculating in futures?

Mr. MARSH. There is no question that the dealing in futures would go on in Liverpool, Bremen, and Havre, exactly as it does to-day, but in three or four times the volume.

Mr. HARRISON of Mississippi. Do you believe it would be a good idea, if it were possible, for us to regulate it in such a way that it would stop it in all the places and the evil should be stopped in New York and New Orleans?

Mr. MARSH. Believing, as I do, that the use of the exchanges and that contracts for future delivery are absolutely indispensable to the welfare of every person connected with the cotton trade, I must answer that I do not think it would be a good thing.

Mr. CALLAWAY. Mr. Parker was asked this morning to define the difference between gambling and speculating.

The CHAIRMAN. I wish you would do that too, Mr. Callaway.

Mr. CALLAWAY. If you win it would be either investment or speculation, if you lose it would be either gambling or larceny.

The CHAIRMAN. As a matter of fact, there is a real, genuine, economic difference between the two, is there not?

Mr. CALLAWAY. Yes. That is the way they use it, that is the way they feel; if a fellow down home wins, it is an investment or a speculation, and if he loses it is gambling.

The CHAIRMAN. A true speculator speculates upon his judgment and reasoning on the facts?

Mr. CALLAWAY. Everything is a speculation. They faced the capital that way [indicating] didn't they, thinking the town was going that way, and the town went the other way. The fellow who thought the town was going this way and bought up here, he was a gambler, and he lost, and the fellow who bought back yonder, he won.

Mr. REILLY. They could not buy down here because the fellows back here were holding it and thought they had a cinch on it.

Mr. CALLAWAY. That is the way in life. As far as that is concerned, everything in life is a speculation. Our own life is a speculation. We do not know whether we will be living in the morning.

Mr. HAUGEN. That is one time when the corner lost out.

Mr. CALLAWAY. Yes. Here is another radical thing, No. 9. All moneys that are received from this tax, after paying the expenses incurred by the Department of Agriculture to establish grades, etc., to be applied to a special cotton bureau for the purpose of fostering the cotton-growing industry and better education of the farmers as to classing, ginning, baling, and marketing their cotton, and to fight the boll weevil and other hindrances in cotton raising. It seems to us proper that all of the taxes gathered from speculation in cotton should be used for the benefit of the cotton grower.

This tax is not put on the grower, but you will get the tax from the speculator and spend it on the grower. That ends the objection to the tax, and you have no objection to this, because you are taxing

the speculator 5 cents a 100 bales, and spending every cent of it for the benefit of the grower.

The CHAIRMAN. Right in that connection let me ask you about this: The use of the taxing power is to be on the use of the mails and telegraphs. What is your judgment on that proposition?

Mr. CALLAWAY. I think it is better, because it will raise money. Another thing is the objection to the mails and telegraphs. If Liverpool should send a cable over here they could not do it with one of their quotations, if they were kept out of the mails and telegraphs, if they did not use the Government grades, and they might not start to use them right off; and I think it might be better if we had the Liverpool quotations around over the markets of the United States. I think that is one good reason.

And then, too, I think it would be great to collect this money out of the speculator and turn it over to the farmer and use it for the farmers in educating them in classifying and grading and baling the cotton, so that there would not be any weakened fiber or short staple.

The CHAIRMAN. One other thing, Mr. Callaway. Do you think it is possible if the committee reduce the tax on legitimate transactions to 5 cents a hundred bales instead of 25 cents a hundred bales, that that tax could be transferred back to the producer of cotton?

Mr. CALLAWAY. I do not think so.

The CHAIRMAN. Why not?

Mr. CALLAWAY. Because in all businesses the buyer pays all the cost. And in my own business, when I bought 100 bales of cotton to hedge on a sale, I paid 15 cents a bale, or \$15 a hundred bales, commission to the broker, when I used to pay \$10; but they have raised it now to \$15, you understand. They won't admit that \$5 was taken out of the farmer; and here is 5 cents instead of \$5; and I say the commission merchants in New York and the individuals would absorb that 5 cents out of their \$15 they are getting, because they are now getting \$5 more than they were then.

They have added that now, and they often absorb the marking and telegrams and other expenses, and I believe he could afford to pay 5 cents on 100 bales and take it out of his \$15 he makes profit on it.

The CHAIRMAN. Theoretically, all of the overhead charge in the cotton business is transferred back to the cotton farmer, is not that true?

Mr. CALLAWAY. I do not know. Of course, there are always two sides to every question, and I always figure everything you add to the amount he gets he pays for it. To reverse it, whenever you add to the cost of the fertilizers in the South, the farmer pays that.

The CHAIRMAN. Undoubtedly.

Mr. CALLAWAY. And the fertilizer manufacturer to the farmer naturally is what the farmer is to cotton.

The CHAIRMAN. Not always.

Mr. CALLAWAY. The producer pays it when the fertilizer is made up, and I imagine the merchant who sells cotton goods would pay all the expense added to the cotton when it goes the other way.

The CHAIRMAN. Suppose this tax was \$5 a bale, or \$500 on a contract. That kind of contract could be dealt in. Don't you suppose that \$500 would be transferred back to the 100 bales?

Mr. CALLAWAY. I do not think it would be dealt in.

The CHAIRMAN. Assume it would be dealt in. I am trying to fix the proposition that theoretically the overhead charges on cotton are transferred back to the producer. I do not think that 5 cents a hundred bales could possibly be transferred back to him.

Mr. CALLAWAY. I do not think so either. Under this idea of mine, all the money you get would be spent on the farmer, and under this idea I think we all ought to throw in a little to help him, because he has been treated so badly.

Mr. HUMPHREYS of Mississippi. May I ask you a question? I want to get information about a matter I am not familiar with. These contracts that are made are frequently transferred from one party to another, are they not? That is to say, the names of the buyer and seller, as the case may be, are substituted one for the other. If you buy a future contract, for instance, and subsequently sell it, then is it possible to substitute me in that contract, if I am—

Mr. CALLAWAY. I am not familiar with that part of the transaction. That is a transaction of the commission house's internal workings, you understand. I have heard and understand they now have to match buyers and sellers and ring out the surplus and to keep it down to a working basis. It looks reasonable to me, but I am not familiar with it and can not go into the details.

Mr. GLENNY. If you will pardon me, I want to answer Mr. Lever's question. We have had an experience with taxing during the Spanish-American War, that lasted for about three years, and nothing such as you suggest occurred. It could not. We had to stamp every notice. I do not mean the word "notice" in the sense of a delivery of the package, but every notice that went from one broker to another had to be stamped. That is, the slips, as we call them, had to be stamped in the office before they left the office, and then they would check by the receiver of the slip in order to validate the contract; there is no possibility for substituting the buyers and sellers in the contract.

The CHAIRMAN. Would not this tend to produce, possibly, the tendency to substitution?

Mr. GLENNY. Anybody, Mr. Chairman, would take a chance to do a thing of that sort at 5 cents a hundred bales if he had no higher code of morals than that.

Mr. HUMPHREYS of Mississippi. You did not catch my point. That is the custom to-day, when there is no tax at all—is it or not?

Mr. GLENNY. The custom is to treat each contract as a separate contract.

Mr. HUMPHREYS of Mississippi. There is no contract for the substitution of buyer and seller in the same contract as when one man goes out and another comes in.

Mr. GLENNY. The contract is passed through the open market and must be, on the sale of a hundred bales; and you buy a hundred bales and then you sell that hundred bales to somebody else.

Mr. HUMPHREYS of Mississippi. Is that a separate contract?

Mr. GLENNY. It amounts to a separate contract.

Mr. HUMPHREYS of Mississippi. Is it, in fact, a separate contract?

Mr. GLENNY. Maybe the same 100 bales is being hedged on.

Mr. HUMPHREYS of Mississippi. But the cotton contract however, is a separate contract, and each one of those would be subject to this tax?

Mr. GLENNY. Each one would be subject to this tax, absolutely.

Mr. HUMPHREYS of Mississippi. That was the experience of the Spanish War tax.

Mr. GLENNY. They got one experience and the Government took the pains to send inspectors around to check up, and there was not a single case I know of where they found it had been probably done; and that tax amounted to 35 cents a contract, which worked a great hardship on the trade.

The CHAIRMAN. How much was the tax at that time?

Mr. GLENNY. It was based on the \$100 valuation. Cotton at that time was selling in the neighborhood of 7 cents, and it would be about 35, but it fluctuated as the market fluctuated.

Mr. HUMPHREYS of Mississippi. It amounted to about 35 cents a hundred dollars?

Mr. GLENNY. I think it was 35 cents a hundred dollars.

Mr. CALLAWAY. Seven times as much as this 5 cents tax would be?

Mr. HUMPHREYS of Mississippi. Do you know how much revenue that produced?

Mr. GLENNY. No, sir.

Mr. HUMPHREYS of Mississippi. It produced a whole lot, and it did not break up trading, did it?

Mr. GLENNY. It produced a whole lot, and I think we can figure it out. It did not break up trading, but it nearly broke up the brokerage business.

The CHAIRMAN. I will say for the benefit of the gentleman from Mississippi that I had my clerk attempt to get the information he desired, and the clerk has not been able to get it. The clerk informs me the money was not segregated in the Treasury, and hence there is no way to get at it.

Mr. GLENNY. I want to say to you, Mr. Chairman, on the point you asked Mr. Callaway, the cotton bore the burden of that tax, because it was charged on the invoices of the sales that the brokers rendered their customers.

The CHAIRMAN. What do you mean by "the cotton bore the burden of the tax?" Do you mean the cotton farmer?

Mr. GLENNY. Thirty-five cents was too much to be absorbed.

Mr. CALLAWAY. You said a minute ago that it nearly broke up the brokers.

Mr. GLENNY. It would have——

Mr. CALLAWAY (interposing). They could not both of them pay it.

Mr. GLENNY. The brokers paid the larger portion.

Mr. CALLAWAY. You can not make the farmer and the broker both pay it. You can not take it out of the broker's commission and out of the farmer both. I will let you take either side.

The CHAIRMAN. The statement was, I think, that the brokers paid the larger part of it.

Mr. CALLAWAY. The larger part, then, was not paid by the farmers, if the brokers paid it. That is all right. He can put it where he wants to, but not on both of them.

The CHAIRMAN. Proceed, Mr. Callaway.

Mr. CALLAWAY (reading):

No. 10. Cotton of perished staple, or repacked, false packed or mispacked, or that shows an excess of seed, sand, dirt, or dust, or excessive damage in ginning, or bales containing any pickings or linters, bollies or machine cotton, or that is less than seven-eighths of an inch in staple, not to be eligible for tender on contracts.

Now, I think that is another thing that ought to be put in.

Mr. HUMPHREYS of Mississippi. You think "merchantable" would not cover that?

Mr. CALLAWAY. How is that?

Mr. HUMPHREYS of Mississippi. You think the word "merchantable" would not cover that?

Mr. CALLAWAY. No, sir.

Mr. HUMPHREYS of Mississippi. It would not?

Mr. CALLAWAY. No, sir.

Mr. HUMPHREYS of Mississippi. You do not think there is any possibility of giving you the maximum staple; there is no occasion for putting in the maximum?

Mr. CALLAWAY. Oh, no; they will not give you the strong ones. There are cotton "runts" to give you. He is not going to put out one of these 16-hand horses or mules to give you, but he will give you one that is in bad shape. He will not give you a good one.

The CHAIRMAN. Do you think it would be possible for any expert to determine what is an excess of sand and dirt?

Mr. CALLAWAY. Yes. I am willing to leave that. Here is the next one:

No. 11. The Department of Agriculture to furnish classers to class the cotton, for which they are to receive compensation commensurate with the value of their services.

There is another important thing, that the Department of Agriculture form this cotton department and let them furnish classers at the New York Cotton Exchange and at the New Orleans Cotton Exchange and elsewhere.

About how much do you pay for certificating, Mr. Marsh?

Mr. MARSH. I have not got the exact figures, but my recollection is the cost of classification in the New York Cotton Exchange was something like \$80,000 a year—\$60,000 to \$70,000 on the average amount of cotton.

Mr. CALLAWAY. It is 25 cents a bale. Here is the bill for it [exhibiting paper]. That speaks for itself, and that is better than anybody's statement. The New York Cotton Exchange now charges 25 cents a bale for every bale they issue a certificate for. They make a profit on that, you understand.

Mr. CONE. There is a guaranty that goes with it.

Mr. CALLAWAY. They make a profit after guaranteeing it; you have done it, have you not?

Mr. CONE. We do.

Mr. CALLAWAY. I say for the whole run of the cotton exchange has it or not shown a profit?

Mr. CONE. It has.

Mr. CALLAWAY. It has shown a profit since 1871. That is a good average.

If the Government would put their classers at New York and New Orleans or anywhere they start a cotton exchange, and let them examine and class this cotton and make them pay 25 cents a bale for

it, I think you will make money on it. Then, another thing further than that, after you do that in this cotton department that I am talking to you about, then let the Government put a classer at every town in the South that receives 5,000 or 10,000 bales a year, and let the certificates be issued from the warehouse.

In the last 8 or 10 years we have got an insurance rate of around 10 cents down there. I have taken up cotton in New York and paid an insurance rate of from 20 cents to \$2.

Mr. CONE. That is very exceptional.

Mr. CALLAWAY. I only paid 10 cents down there. Take every warehouse that receives 10,000 bales a year and let that classer examine the cotton when it is weighed and mark on the ticket, and that ticket includes insurance, and if it bears it, the poor farmer does not lose anything. Let him put the class here and sign the Government's name to it, and it will save more than \$1 on every bale of cotton, and it will save \$15,000,000 a year by sampling and resampling, trucking and retrucking, handling and rehandling, and let that ticket go with the cotton to New York and into final consumption, and you do not have to sample it again. If you started a cotton department and examined the cotton that is going to be taken on the exchanges, it will not be but a year or two before you will put classers in the South at the gins and at the warehouses who will sample it right there and save all that waste.

Mr. RIDDICK, about how many bales of cotton a year is the city crop?

Mr. RIDDICK. About 150,000 bales.

Mr. CALLAWAY. About 150,000 bales. That would be \$750,000—

Mr. HAWLEY (interposing). It would be \$7,500,000.

Mr. CALLAWAY. Yes; there would be \$7,500,000 of waste. That is absolutely wasted. They are saving \$7,500,000 worth of cotton that is absolutely wasted now. It is pulled out and repacked, the sample is repacked, and of course there is a large wastage. Every time the country merchant buys it he pulls out and wastes a half a pound, and the cotton buyer wastes a pound, and he sends it on to the compress, and they waste 2 or 3 pounds more—take out more samples. A good bit of the profit made in shipping the cotton is on samples and adding 6 pounds more tare when it gets there by just hanging patches on that make it weigh more. They buy jute patches and put them on to make up the waste. That is what I mean by educating the farmer in this matter of stopping all this waste. I am not up into higher mathematics and can not present this thing to you from a scientific standpoint, like Mr. Marsh will do when he gets here, but I can see millions and millions of dollars being wasted—a nickel at a time—and there is no sense in it; and if the ordinary cotton grower is too ignorant to know these things himself, you gentlemen should look after him and do it for him. This is a big thing and you will make a profit on it at the cotton exchanges. Mr. Cone says they have made a profit since 1871. There will not be, then, the criticism of undue influence. For instance, in March of this year, March cotton in New York went 80 points higher than May cotton. May cotton ought to be 8 to 10 points higher than March. It costs 15 points to carry it, and May cotton ought to be 15 points over March. None can be raised between March and May, and May cotton ought to be worth what it is worth in March plus the cost of insurance and carry-

ing. There is a big spot-cotton house in New York that, rumor says, was long on March and was short on May; I do not know this, but it was in the newspapers; it was in the New Orleans papers, the Times-Democrat and others; they squeezed the shorts and made them pay them \$4 a bale and carry the cotton two months for nothing.

Mr. HUMPHREYS of Mississippi. Mr. Callaway, do you think it would be desirable or workable to provide in this contract that the cotton can be delivered at any of the designated points in the cotton country where it is purchased?

Mr. CALLAWAY. I have heard that argued from two sides, and I have no opinion on it one way or the other. I know this, that if you allowed that and Mr. Parker was to buy 100 bales of cotton in New York, they would find where he wanted it, and they would give it to him at the farthest place from where he wanted it. You might find that they might give it to him in Dallas. Dallas is in Texas, but it is a long ways from where he wants it. They would find out what he wanted and where he wanted to use it, and they would give it to him at a location just as far from that point as possible, and one that would take the longest freight rate to get there, and there would be that disadvantage to him.

Mr. SLOAN. Do you understand that these cotton men are in any way selfish?

Mr. CALLAWAY. Oh, no, sir; I am not criticizing them. I would do the same thing if I was in their place. It is human nature for a man to do what is to his own interest. But let us fix it so it can not be to a man's interest to "rig" the game and then we will lose our "riggers."

Mr. HARRISON of Mississippi. Mr. Callaway, do you believe that it would be better to have these conditions that you have enumerated continue to prevail in the cotton exchanges, or to have them discontinued—to have the cotton exchanges abolished?

Mr. CALLAWAY. If you are going to let them run like they are running now I would rather abolish them, because this last fall, when I hedged my cotton, I would have done as well to have bought pork or sold pork and bought butter beans or sold pigs than I would to buy my cotton in New York. I do not think you ought to abolish them. America is too big and too progressive to do a thing like that. You are not going to do that, but you are going to regulate them, and you can not regulate them to save your life where Mr. Marsh's fear will come true that New York futures will sell higher in New York than in southern markets, plus the cost to cotton concerns to get them there. His fear will never come true that New York futures will sell higher than actual cotton on a commercial basis in the South, plus the cost of getting it to New York, because the minute it goes 5 cents higher there everybody in the South will ship to New York and keep it from going higher.

Mr. HARRISON of Mississippi. Even if we abolished the cotton exchanges, do you think that the cotton trade could adjust itself to the changed conditions?

Mr. CALLAWAY. Yes, sir; American can adjust itself to anything. For instance, when Columbus first landed here he said that the toilet and sanitary conditions were bad. But we adjusted ourselves to that, and finally bettered the conditions. We have adjusted ourselves to various conditions, and we can adjust ourselves to this.

Mr. HARRISON of Mississippi. How would it adjust itself?

Mr. CALLAWAY. I do not know. We have a way of meeting those things when we come to them, and we have a way of not crossing bridges before we come to them, and we find that a lot of the bridges are steel viaducts when we do actually get to them. I do not think it is an absolute necessity, but I think it would be very unprogressive and I do not think it would be representative of America. I do not think you gentlemen are going to do it. I do not think it would protect anybody if you did abolish the cotton exchange, and I think it would be going back to the dark ages, and we are not going that way in this country; we are going forward. I have no objections, personally, to their running it just as they want to, if they will call it the Chestnut Exchange or the Buckeye Exchange, or something else; but I have an objection to their calling it a cotton exchange. This was in January, 1910. I was called to Akron, Ohio. This was when futures went down 3 or 4 cents, and I wired my place as follows:

On Tuesday will be in Akron, Hotel Buchtel. On Friday will be in New York. Wire night message, Akron, what spot cotton can be bought at, and can spots be bought.

I wanted to sell some goods, and I wanted to know what cotton would cost me. I had the New York figures, but you can not bank on that very well under their rules. Here is the telegram that came from my man at home:

Impossible to buy spot cotton at decline. . . Firmly held 15½ and above.

I sold some goods that day—January 19, 1910.

Here, on January 20, is a telegram from Springs & Co., where I bought cotton to hedge the goods I had sold. I sold the customer goods which would take 200 bales of cotton to manufacture. I covered my sale of that day. Here is the original telegram from Springs & Co.:

Bought one July 1399 and one 1389 for Unity Spinning Mills.

Cotton was 15½ at home that same day. Here is a telegram from my own man that it was hard to buy at 15½ in the South, and it was 13.89 in New York. The crop was better up in New York, in The Bronx, than in Troup County, Ga., although we are a cotton county. [Laughter:] That is why we all broke the law in 1910 and took up some cotton. That is, we asked for some cotton we bought, and somebody came along and got in league with the Department of Justice, and just for buying cotton and taking it and spinning it we were tried before the United States grand jury.

The New York quotations go all over the world, and that is why I object to their calling it the cotton exchange. If they would call it the buckeye exchange my customer at Akron would not be deceived by the New York quotations.

The CHAIRMAN. How many of those bales could you spin?

Mr. CALLAWAY. I did pretty well. They spoke about that year as they did about last year. I understand the cotton exchange are getting a little bit more religious now. They are rejecting a little more now, are you not, Mr. Cone? I have it from one of the biggest spot houses in New York that they are rejecting cotton now just like cotton they accepted in December.

Mr. CONE. That is not so.



Mr. CALLAWAY. Is it not a fact that McFadden asked you to lower your standards, about the 16th of March?

Mr. GLENNY. He did not.

Mr. CALLAWAY. Did he not write the board of governors, saying that the classification committee was too strict?

Mr. GLENNY. Yes.

Mr. CALLAWAY. He did say that?

Mr. GLENNY. Yes.

Mr. CALLAWAY. You say he did not write that letter until after he had got his Marches up?

I do not know Mr. McFadden's business, but Mr. Cone says he wrote that letter between the 10th and 20th of March to the board of governors, saying that the classification committee was too strict. That is where the effect of influence comes about on their classers to class their cotton. Big firms like McFadden's have a powerful influence. I think they ought to have laws that will not permit them to use it for the bad. I do not think a man that has a powerful influence ought to have a right to influence the classification committee, many of whom are his friends and men he gives a heap of business to; and if you had United States classers there under the supervision of the Department of Agriculture, I do not care how much business he might give out to the other brokers, he could not influence the classers of the Department of Agriculture. I think it is very important that the cotton be classed by the Government. I think it would be a better contract. I think everybody would rather have 100 bales classed by the Government than classed by a company that has as good a man as I have at the head of the company. [Laughter.]

The CHAIRMAN. Mr. Callaway, bringing you back to Mr. Harrison's question, let me ask as to the effect of the abolition of the exchange. I agree with you that I think in time the country will adjust itself to the changed condition, but during the transition period would you not likely have the greatest season of cotton monopoly in the hands of big firms like McFadden & Co. and others, that the world ever saw?

Mr. CALLAWAY. I do not know whether you would or not.

The CHAIRMAN. Is that not likely to happen?

Mr. CALLAWAY. I do not know. There are two sides to every question. It is my idea that you ought to continue the exchanges, and encourage them, and if you think they would not engage in speculation, let me say that I will bet that every one of you, or nearly every one of you has a piece of land that you are speculating on, or at least you are speculating in some way. You speculate when you choose your wife. As far as that is concerned, that is the biggest speculation of all. Life is made up of speculation. If it was not for speculation we would not have any use for brains at all. I think to abolish the exchanges would be a mistake. I think it would be reactionary. I think it would be nonprogressive. I do not think it would be American to abolish anything like an exchange for the broad sale of our products. What we need is more exchanges. We need vegetable exchanges and cabbage exchanges and onion exchanges, and what we need worse than anything else in the world is a department for marketing, to sell our goods in the very broadest way. However, if you have these exchanges to do milking, as Uncle Ben Tillman says, and the exchange has the south half of the cow, and the teats, and the

farmer has the north half, and all the exchange has got to do is to holler, "Put in a little more hay; milking is getting slow," then I think you had better abolish them. But that is not necessary. You gentlemen have done many more wonderful things than that. Your regional bank is a more wonderful thing. It is a fine thing. And if you did reduce the tariff on my goods from 37½ to 7 per cent, I think you did right. I think it is going to come out all right, absolutely. [Laughter.] President Wilson asked me about the tariff, and I said, "I think you ought to reduce mine from 38 to 10 per cent. I think he must have thought I was crazy. I said, "If you will let me have that 38 per cent I am willing that it should stay where it is, but I am not getting it, and I do not care to get the name for it; and I am shipping goods to England to-day." The reason I want that 10 per cent is that England can not flood me out in bad times, and in good times; I can take care of myself.

The CHAIRMAN. We have entered into a field of speculation somewhat of what might happen if we abolish the exchanges. Let me ask you in this paragraph 5 of section 5, where we provide that cotton of perished staple, or cotton that is repacked or false packed or mispacked, etc., what portion of the total provided for in that classification would we reject?

Mr. CALLAWAY. If you will just add in there "bollies" and "machine cotton," I think you have got about what we need.

The CHAIRMAN. Assume that the committee passed that, how much in the total number of bales will that prohibit tendering on contracts?

Mr. CALLAWAY. Including the seven-eighths of an inch staple, too?

The CHAIRMAN. Yes.

Mr. CALLAWAY. I should say it would put out of business from 250,000 to 750,000 bales a year, according to the season. You understand it will vary every year.

The CHAIRMAN. Express it in per cent, will you?

Mr. CALLAWAY. I should say from 2 per cent to maybe 10 per cent, if something was not to happen worse than ever has happened.

Mr. HAWLEY. Seven hundred and fifty thousand bales would not be 10 per cent of 15,000,000.

Mr. CALLAWAY. I said 10 per cent, providing something were to happen that never has happened.

Mr. HAWLEY. I would stay down nearer to the ground.

Mr. CALLAWAY. No; I said from 2 per cent to 10 per cent.

Mr. HAWLEY. Ten per cent would be more than it would ever be.

Mr. CALLAWAY. I do not think it would be that many.

Mr. HAWLEY. You do not think it would be over 750,000?

Mr. CALLAWAY. That is just a guess, and I would just as soon ask a black nigger that comes along to guess at it, because nobody can tell. I would say it might be twice as many bales as it was a year ago.

The CHAIRMAN. You do not think that would be over 10 per cent?

Mr. CALLAWAY. I do not think it would possibly be over that. Mind you, such cotton is sold by private treaty now. There is a market for that cotton, and there is also a market for "runts," and there is a market for "wormy apples"; but they make cider out of them, and they do not make baked apples and cream at 35 cents a head, like they do down here at the New Willard.

Mr. TAYLOR. How do you know?

Mr. CALLAWAY. I had 35 cents' worth this morning, and Lewis Parker paid for it. I thought it was good stuff, and good stuff brings good prices. But you can go right around the corner to a restaurant down on a side street, and you can get that for 10 cents—that is, with a worm thrown in; a little meat thrown in, and a few microbes and bacteria, and a spell of typhoid fever thrown in. That is what they are doing with these "runts" here.

The CHAIRMAN. Mr. Callaway, in section 6 of the bill, where we provide that the differences above or below the contract price shall be determined by taking the average actual commercial difference in value in the spot markets of eight places, do you think there is any probability of strong influences getting together and influencing those markets?

Mr. CALLAWAY. I should think so. If I were going to deliver cotton under this bill in New Orleans six days before the time I intended to deliver I would see that the periods for making the actual sale favored me, as good a man as I am. [Laughter.] If I were going to deliver cotton in New Orleans under this system, six days before I got ready to deliver it I would go out and buy a bale and sell a bale and get the differences that I wanted, say, six days later; I would make a market to work on.

Mr. TAYLOR. You mean by that you would fix the price?

Mr. CALLAWAY. I would try to make the differences where it would pay me six days after, when I delivered it.

Mr. TAYLOR. That is, where the market is based upon the price of any one point?

Mr. CALLAWAY. That is it, exactly. Let us take that temptation away from them, then they will all join the church at the big revival in the spring.

The CHAIRMAN. Let us get our record straight, Mr. Callaway, because we have got to depend on this testimony in our statement on the floor. I was assuming that this committee would accept your suggestion this morning to cut out this one-market price and leave in the eight markets. My question goes to the point whether or not there would be any possibility of manipulation of the eight markets.

Mr. CALLAWAY. Some of them disagreed with me. Maybe they are right. In looking after everything, you see, I look at it as if I were the cow. I must not tell them my cow tale, must I, Mr. Parker? That won't do, will it? It is a good one, though; it will be worth money to you fellows. It won't take but a minute to tell it.

Mr. TAYLOR. Go ahead and tell it.

Mr. CALLAWAY. It happened in the little country town of Lagrange.

The CHAIRMAN. Do you want it to go in the record?

Mr. CALLAWAY. All right; let it go in. I am not ashamed of it. I never tell smutty stories.

In the little country town of Lagrange, where the neighbors come in and sit around in the grocery store and whittle pine and swap stories and pass the time of day instead of working, they were all sitting around one evening when a farmer walked in and said, "Boys, I have lost my cow and I want you to spread the news around, and if anybody finds her I will give him \$5." There was a half-witted fellow sitting on a box, and he said, "Do you mean that you will give \$5 to anybody that finds your cow?" "Yes." The fellow walked out

and Mr. Jones spent the evening talking with his neighbors, and by and by the half-witted fellow came back in and said, "Mr. Jones, here is your cow." Mr. Jones said, "Tell us how you found the cow." He said, "When you said you would give \$5 to anybody that found your cow I went out in front and set on that Octagon soap box, and while I was sitting there I said to myself, 'I ain't had any money for a long time,' and I wanted some, and I said to myself, 'If I was Mr. Jones's cow, now, where would I go?' I thought of all the grass being killed by this heavy frost except a little piece down in that little place at McClellan Springs, where there are heavy trees and the grass is still green down there." I said, "If I was Mr. Jones's cow I would keep on going until I came to that green grass under those trees," and I went down there and found her." [Laughter.]

Whenever I look at one of these things I always look at it as if I were a cow, and I would keep on going until I got to the green grass.

Lets see—where was I at? I want to apply that story.

Oh, yes. You asked me what would I do about these eight markets?

The CHAIRMAN. Yes.

Mr. CALLAWAY. If these United States belonged to me, I would have a man at the head of the Department of Agriculture in whom I had confidence. He is a Cabinet officer. He is one of the President's Cabinet, and he has confidence in him. I have confidence in every Senator and in every Congressman that we have here. The President gets the best men he can. I would leave it to him to establish this department, and I would have a man with character and I would pay him a big salary. I would make several of these spot markets. I would first make a law that these spot markets have to quote the Government grades. I would have investigators drop in and see these folks and get acquainted with them, and find out whether there is any jockeying being done; and if there is any jockeying going on in the exchange I would cut them out and say to them, "Gentlemen, you are jockeying the markets, and we can not use you as one of our basing points until you quit jockeying." I would let him select the cities, if it was me. I would say he should base these differences on the spot market in eight cities to be selected by him.

Mr. HAWLEY. How often would you change it?

Mr. CALLAWAY. Whenever the differences fluctuated. If bad rains come that affect the market, then change it.

Mr. HAWLEY. How often would you change?

Mr. CALLAWAY. Every time a rain comes. If it did not come it would not change until December.

Mr. HAWLEY. I mean how often would you change the towns?

Mr. CALLAWAY. Whenever he pleases. That is the way I would do it. I would have a man of such character that I would leave it to him, and I believe he would do it properly and squarely, and anyway, if he made a mistake it would be a mistake of the head and not of the heart, and there are not many people hurt by that kind of mistakes.

The CHAIRMAN. Assuming, however, Mr. Callaway, that the committee might think that is too much power to place in the hands of one man, what would you do?

Mr. CALLAWAY. I would suggest Savannah, New Orleans, Memphis, Galveston, Houston—that is five.

The CHAIRMAN. Yes; would you fix those places in the bill or leave it to the Secretary to fix them?

Mr. CALLAWAY. Either one; it would not make any difference.

The CHAIRMAN. Do you think there would be any probability of manipulation of those markets?

Mr. CALLAWAY. There are too many of them. Then again, I would allow this cotton department to have a sort of Burns man, a sort of secret service man drop down there and talk shop and find out something about what they are doing in Augusta or New Orleans, and if they are running this "rig" game, you understand, just simply say to them, "We are not satisfied with the way you are 'rigging' your game; and until we are satisfied we will not establish you as one of the spot markets." If he joined the church and comes back again, put him back on the list. I believe your cotton department ought to have enough sense to do that, and I believe they will do it straight.

The CHAIRMAN. Is there anything further, Mr. Callaway?

Mr. CALLAWAY. I do not know of anything. It looks to me like all you can do, after all this, is just to pass the bill, as I have told you.

Mr. HAUGEN. I would like to know what you think about standardizing the grading.

Mr. CALLAWAY. I do not want to standardize but one set of grades.

Mr. HAUGEN. Who is to fix the grades?

Mr. CALLAWAY. Who is to classify it?

Mr. HAUGEN. Yes.

Mr. CALLAWAY. Let the Department of Agriculture hire experienced classers. The New York Cotton Exchange has got theirs, and New Orleans, and everybody would like to work for the Government, because they will be in the civil service and can not be turned off.

Mr. HAUGEN. Whom do you propose should make the inspection?

Mr. CALLAWAY. I can get you more classers within 100 miles of Lagrange than are in New York and New Orleans put together, and I can get them for half the price they are paying, and they are making a profit on theirs. We haven't got on to the city ways down there yet.

Mr. HAUGEN. Let us get down to this grading. You are in favor of uniform grades, you say?

Mr. CALLAWAY. Yes, sir; Government grades.

Mr. HAUGEN. And Government inspection?

Mr. CALLAWAY. Yes, sir.

Mr. HAUGEN. Then we should provide the machinery to do the inspection?

Mr. CALLAWAY. Yes, sir; I think so. I would have the cotton bureau put these tags on right from the start. It would mean protection to the farmer.

Mr. HAUGEN. This bill does not direct the Secretary to do that; it says that he may.

Mr. CALLAWAY. I would direct the establishment of a cotton bureau, and I would have the classers come in under that bureau, and let them make a charge of 25 cents a bale, and they can use that to fight the boll weevil or something else, and it will be a benefit to the farmer.

Mr. HAUGEN. Then you are in favor of uniform standards?

Mr. CALLAWAY. Yes, sir.

Mr. HAUGEN. And Federal inspection?

Mr. CALLAWAY. Yes, sir; and one standard. That is the biggest thing of all, although all of these are big things.

Mr. HAUGEN. You believe that the Secretary should be directed to do that and not simply leave it up to him?

Mr. CALLAWAY. Yes, sir. "Little drops of water and little grains of sand make the mighty ocean and the beauteous land." That is the thing. These little things that we tack onto this bill are some of the biggest things in the whole proposition.

Mr. HAUGEN. Why do you favor uniformity in grading?

Mr. CALLAWAY. Government standards, you mean?

Mr. HAUGEN. Yes; and what advantage is there in having Government inspection of cotton?

Mr. CALLAWAY. The advantage of uniform standards is that now Augusta and Savannah have different standards, New York and New Orleans have different standards. They call it by the same name, but it is not the same grade. Your good—ordinary good—in New York is different from your good—ordinary good—in New Orleans, is it not?

Mr. CONE. Yes, sir.

Mr. CALLAWAY. And your Augusta middling and Savannah middling is different, is it not?

Mr. CONE. Yes, sir.

Mr. CALLAWAY. I would do that so that each town would have the same grades that other towns have, and if other towns want to be a spot market, let them adopt the Government grades.

Mr. HAUGEN. Why do you favor Federal inspection over that of the inspection of the officials of New York?

Mr. CALLAWAY. Because it will give confidence to the certificate and will be a source of profit to the Government, that can be used to further advance the agriculture of America. I would pay \$25 a hundred bales more for a hundred bales with the Government certificate than I would one of a classer of a private company.

Mr. HAWLEY. How could you afford to do that?

Mr. CALLAWAY. One of the biggest spot houses in New York has written me in the last week—and I have got his letter—that the New York Cotton Exchange accepted cotton in December such as they are refusing now, you understand. That would indicate they have changed their system of grading there, and without any knowledge of the public, because somebody up there has given them instructions to change. I say there can not be any influence brought to bear on the United States Government to change their system a little, stick on a little here and raising a little there, etc.

Mr. HAUGEN. You think if the Government classes cotton there will be \$25 more to you—

Mr. CALLAWAY (interposing). Of insurance, certainly.

Mr. HAUGEN (continuing). In the hundred bales than under the present system?

Mr. CALLAWAY. Yes, sir.

Mr. HARRISON. Do you believe that the provision for the standards and the grading is of greatest importance in the bill under consideration?

Mr. CALLAWAY. The most important is that when you get a classer at the warehouse, there is many a poor plain nigger and ignorant farmer that is selling cotton now and not getting its value for it. My idea is to take this money and educate him and let the Govern-

ment put a classer on there, and then it does not take any man with experience in the market to tell what the grade is. Don't you know that is true, Mr. Lever?

The CHAIRMAN. That is undoubtedly true.

Mr. CALLAWAY. Another thing; an ignorant man comes in there with a bale of cotton, and he does not stand any more chance than a snowball in hades.

Mr. HARRISON. That is true in every local market.

Mr. CALLAWAY. There is where you men of experience ought to make a law by which the ignorant man will be taken care of. I think there is a responsibility on you to do it. I do not think the big fish ought to eat the little ones. I think they ought to protect the little ones.

Mr. MOSS. Do you mean that the Federal classers should be in all the markets, or just the big markets?

Mr. CALLAWAY. To start with, in New Orleans and in New York, and then, when those have been put in, extend it to other places. It would not cost any more to make these than demonstrators that are talking about the boll weevil down there do that work.

Mr. MOSS. What protection would the Federal character of the classers give to the plain negro that brings in one bale of cotton?

Mr. CALLAWAY. It would not; but you have got to do this a little at a time. If you have got enough nerve to do this now, I would do it now.

Mr. HAWLEY. The committee wants to do the right thing, and we want to find out what is the thing to do.

Mr. CALLAWAY. You can hire good classers, men of character, that were born and raised down there and belong to the Methodist Church, the same as John Hill does, and they will do their duty.

Mr. HAWLEY. In order to make this a benefit to the grower, he would have to have this established right away?

Mr. CALLAWAY. If you put it all over the South, you can not do it in a minute. It would take several years.

Mr. HAWLEY. If the Government provides for inspection in every big house, what is necessary to protect or benefit the cotton grower? That is what I am getting at.

Mr. CALLAWAY. If it were my cow and I were as big as the United States Government, I would put a classer in every warehouse of the United States, and I would have the cotton graded as it came from the gin. You understand that enormous waste would be saved.

Mr. HAWLEY. Federal regulation could not be applied to intrastate traffic.

Mr. CALLAWAY. It would apply to cotton that is going to be used in interstate traffic, which means most of it.

Mr. HAWLEY. What is your estimate of the number that would be required? At how many points would they be necessary?

Mr. CALLAWAY. How many men?

Mr. HAWLEY. At how many places would you need inspectors?

Mr. CALLAWAY. I would think if you did it that way it would take several thousand inspectors.

Mr. TAYLOR. You would have to have one at every gin, would you not?

Mr. CALLAWAY. I think the warehouse would be better than the gin. That is where it should first receive written notice. Twenty

gins might supply one warehouse. You do not sell it from the gin, but from the warehouse.

Mr. YOUNG. That may be true in your country, but I am from one of the largest cotton States in the country——

Mr. CALLAWAY (interposing). Texas.

Mr. YOUNG (continuing). And we have not got any warehouses. Would it not be still better to have this system worked from the gin?

Mr. CALLAWAY. Here is the idea: If you had this system, the cotton would be better collateral than it is now. If you had it stored in a warehouse and anybody could see what the grade it, you would have better collateral than it is now; laying out in the wet like it does not belong to anybody. Then, would not you people be able to borrow money and hold it until somebody wanted it instead going in at distress times, when he has got to pay his bills? Then they will get the value of their cotton, because they can hold it until the other man wants it. If you add character to the tickets, they will build warehouses. Mr. Duke is talking about putting \$5,000,000 in warehouses in the South now. If you want to come right down to the root of the thing, if you will have at every warehouse a Government classer to class the cotton, the ignorant man will get a better price for his cotton, and your certificate will be better collateral in the market.

Mr. YOUNG. In Texas every town that has a cotton market has a public weigher, under the Texas law. Take my little town, we market from 15,000 to 25,000 bales of cotton from that one town. There are some 8 or 10 markets in that one county. That public weigher is a State officer.

Mr. CALLAWAY. Yes. Let that man be your classer, and give him an assistant to help him do the work, and let his certificate show the grade.

Mr. HARRISON. Mr. Callaway, I never had heard that suggestion before, as far as I am concerned. I had never read of it. It appeals to me. I just want to ask you, is that original? Have you heard that idea discussed, or read it before, of these inspectors at these towns?

Mr. CALLAWAY. I have a young man in my office, about that high [indicating] that handles our correspondence. He got up that idea. He has been with me several years.

Mr. GLENNY. Let us have his name.

Mr. CALLAWAY. No, sir. You all might want to hire him.

The CHAIRMAN. Let me say that there is pending before this committee a bill which involves the very idea you have expressed, on the grain proposition, a bill introduced by me but prepared by the Department of Agriculture, and I may say that it is my intention, if the committee is willing, when we finish this legislation, to take up that, and when we have finished other legislation that we have mapped out here.

Mr. HAWLEY. Without the fixing of a standard this bill would be of no value whatever; you must have somebody to fix a grade.

Mr. CALLAWAY. The Government is to fix a standard.

Mr. HAWLEY. Then, the two have to be carried together, because one without the other would not be valuable?

Mr. CALLAWAY. If you have got the nerve to put them in effect, that is the thing to do. But I thought you could not stand to go



ahead so fast all at once, so my idea was that you would put them at the exchanges one year, and if it worked out you would try the big towns and finally get it to the little ones. The rural free delivery started that way. It did not start all over the country all at once. There were at first just three or four places that were picked out to experiment with.

Mr. HAWLEY. How are you going to help by putting them in your big exchanges?

Mr. CALLAWAY. You are going to help everybody except the man who wants to make the thing a little different from what it is.

Mr. TAYLOR. You will not help the farmer—this ignorant farmer—because he has already sold it.

Mr. CALLAWAY. He has got some more to sell this year, and next season. The quotations on the exchange this summer will affect the price next fall. The New York Cotton Exchange quotations have a bigger effect than you think for. I myself know when I have got a lot of cotton on hand and the New York price goes down 40 points I sometimes groan and say, "Great God. I have got the same cotton I had 20 minutes before, but they have 'done marked' it down 40 points." A man feels rather queer, and it sometimes makes me groan when they knock it off 40 points in one day.

Henry Grady said once that they got him in a speculation and he bought 100 bales of cotton, and he got a telegram from his broker with the one word "wren." He says, "What does this mean, 'wren?'" Somebody said, "Deposit \$1,000 in bank and have bank wire," and Henry Grady said, "Thank God they didn't say 'turkey.'" [Laughter.]

The CHAIRMAN. Is it not a fact that the average farmer always sells his cotton on a declining market?

Mr. CALLAWAY. Certainly. Everybody does. You and I do the same thing. It is human nature to get rid of the thing that is going down and buy things that are going up.

The CHAIRMAN. This cotton exchange business in New York has worked injury to some of you people?

Mr. CALLAWAY. I will tell you what it has done. It has busted some of the biggest old cotton firms, for instance, Inman & Co., of Augusta, Ga. They sold cotton for delivery in the spring, bought New York futures as hedge, spot cotton advanced and New York futures declined, and they lost their whole capital, although they were doing a legitimate business, and were not speculating at all.

Mr. REILLY. You have not suggested any remedy for preventing shoving it up and down.

Mr. CALLAWAY. I have absolutely suggested a remedy to prevent a man artificially squeezing you out. I do not want you to say that cotton shall be 5 cents or 20 cents. Let cotton sell for what it is worth, and I hope it will always bring a high price.

Mr. REILLY. If the cotton market does not go up and down how would the speculators live?

Mr. CALLAWAY. I do not know that we want to pass a law just to take care of the speculators. I would rather lose them as a by-product and mash them sometimes for the benefit of producer.

Mr. REILLY. If you are going to have a cotton market you have got to have these variations.

Mr. CALLAWAY. I do not object to the legitimate variations or legitimate fluctuations. I do object to May cotton going down 2 cents when actual cotton has gone up 1 cent.

Mr. REILLY. As long as you let men speculate on your business they will do that. You have not suggested any remedy.

Mr. CALLAWAY. If you will pass this bill it will stop it. You will find out that the price will balance itself back and forth, and whenever it gets too high they will ship cotton from the South and they will hold it down, and when it gets to going down too low the merchants will take it up. If you fix it on this basis the cotton producers of the South will keep it from going too high and the merchants will come in and take it up as it gets too cheap.

Mr. REILLY. The only thing you are afraid of is low cotton in the New York market after you have bought; you are not afraid of high cotton?

Mr. CALLAWAY. I want the New York price to represent the real price of cotton at which it is disposed of.

Mr. REILLY. A rising market does not bother you at all?

Mr. CALLAWAY. It does. A rising market has hurt me.

Mr. REILLY. How can it hurt you?

Mr. CALLAWAY. Why, the time that cotton went up to 17.89 I did not sleep well for six months. When you get goods up beyond a certain price you can not sell them freely.

The CHAIRMAN. Mr. Callaway, have you concluded your statement?

Mr. CALLAWAY. I have already said too much, because I am afraid you will make it worse than I have asked you to.

The CHAIRMAN. I want to ask you one further question, Mr. Callaway. I sent you these three bills, the Candler bill, the Senate bill, and the House bill. I would like to have your judgment as to each of those bills, as to which will more nearly meet the situation?

Mr. CALLAWAY. Well, you see, I consider your bill the best, but the Smith bill has passed the Senate, has it not?

The CHAIRMAN. Yes.

Mr. CALLAWAY. If it were I, I would amend the Smith bill by taking out all of the bad and putting in all the good things of yours, and all the things I have called your attention to, and let it go over to the Senate from the House, because if you try to run over an entirely new bill they might balk, and we will get nothing whatever. They have been talking about these things for 10 years. I think we had better get this thing done this session and get through with it and start it, and the sooner we get it started the better.

The CHAIRMAN. Do you think this bill will accomplish what you expect of it?

Mr. CALLAWAY. I think so.

The CHAIRMAN. Do you not want to direct the Secretary to standardize cotton? This does not direct him to do that.

Mr. CALLAWAY. Yes, it does. You have got it standardized, but you have not got a law making a man trade in the Government standards.

The CHAIRMAN. You have got some samples here, but you do not provide for the inspection or standardization.

Mr. CALLAWAY. I suggest that the Government put the classers at New York and New Orleans to do this classing.

The CHAIRMAN. You have got to provide for somebody to do the inspection and fix the standards.

Mr. CALLAWAY. Have I not asked here that the Department of Agriculture do the classing at New York and New Orleans?

The CHAIRMAN. You are speaking about the bill?

Mr. CALLAWAY. I thought you were going to take my bill?

Mr. HAUGEN. Is not that your opinion? I am not so much concerned about the cotton, but I am concerned about the grain, and what is true in one case is true in the other, and I am simply inquiring for your opinion.

Mr. CALLAWAY. My opinion is, which I have given here, that they change these standards a little to allow some tinged cotton to come in, or take off one each of high and low grade which is not used largely and have the Department of Agriculture class the cotton at New York and New Orleans, and, if you have nerve enough, let them classify it at the warehouses in the South.

Mr. RUBEN. Mr. Chairman, I think we ought to incorporate Mr. Callaway's typewritten suggestions in the record.

The CHAIRMAN. Without objection, it will be done.

(The paper referred to will be found at the conclusion of Mr. Callaway's remarks.)

Mr. CALLAWAY. Here is another thing which we have been using. It gives the mark, number, weight, and price of each bale of cotton, and 50 bales on that one little sheet of paper. We have here a little place even for the producer. That is the nigger that plowed it, so that if any question ever comes up as to who produced it, we know whether Bill plowed it or Sam. That is not so much trouble, and it ought to be made out as a matter of record. Every bale that is used in the world is billed this way several times.

Mr. LEE. What do you think would be the most effective way of enforcing a proposition like that, the Lever bill, through the taxing power of the Government, or the Smith bill?

Mr. CALLAWAY. I prefer the taxing power. I will tell you, one objection some of the Senators of the South and Representatives have to the taxing power is that their farmer friends might think they are taxing them, but this idea of taking this little money from the speculator and spending it on the farmer would disabuse that, and I know it would be the best thing that could be done.

There is one objection to the telegraph and mail, and that is that you could not distribute the Liverpool quotations, for they do not use the United States standards. I think they ought to be distributed. It is a big market, and the farmer ought to have the benefit of what they are doing.

Mr. LEE. You could not reach intrastate commerce either by the telegraph?

Mr. CALLAWAY. No, sir.

Mr. SLOAN. This bill in no wise interferes with intrastate commerce at all.

The CHAIRMAN. This taxing power would go into the State; we could go into the State under the taxing power.

Mr. CALLAWAY. That would give you statistics as to how many bales were handled on future markets.

Mr. HUMPHREYS. Why could you not get the foreign quotations from the exchange through the mail?

Mr. CALLAWAY. Because the foreign exchange is not based on American standards. They have their own standards, which are very different.

Mr. HUMPHREYS. That is assuming that this bill is passed just as it was written?

Mr. CALLAWAY. That is what I am assuming. That is what they are asking me about.

Mr. HUMPHREYS. Why could not it reach that by saying "Any person, firm, and so forth, being a member of any exchange, society, and so forth, in the United States"?

Mr. CALLAWAY. I would rather get the money from this 5 cents a hundred bales and kill the boll weevil with it.

Mr. HUMPHREYS. I am not talking about that matter. I am talking about this exception. You said that that could not be made to work.

Mr. CALLAWAY. I do not say it could not be made to work. I believe we could work without any exchange.

Mr. HUMPHREYS. But this other law, you say, could not be made to work?

Mr. CALLAWAY. I think the law could be made to work, but we would not have the benefit of the Liverpool quotations.

Mr. HUMPHREYS. Why not, if we limit this to members of any exchange in the United States?

Mr. CALLAWAY. We would lose this 5 cents a hundred bales tax money.

Mr. HUMPHREYS. I understand that; but that would not, however, eliminate the quotations of the foreign exchange.

Mr. CALLAWAY. No, sir; but I think this 5 cents a hundred bales tax money would be a good thing.

Mr. HARRISON. Were you in favor of the Clarke bill, in the Sixty-second Congress?

Mr. CALLAWAY. No, sir.

Mr. HARRISON. Were you in favor of the Lever-Underwood substitute?

Mr. CALLAWAY. Yes; I think the Lever-Underwood substitute is along the right lines.

I have given you gentlemen some good information that I have been gathering here for a long time, and I hope that you can use it.

(The papers submitted by Mr. Callaway during the course of his statement are as follows:)

No. 1. The adoption of standard Government grades of upland cotton and one standard only. We would recommend the elimination of middling fair and good ordinary, as there is very little of these grades, and the addition of good middling tinged, strict middling tinged, and middling tinged, as a good proportion of these grades is raised every year.

No. 2. The abolishment of fixed differences and the substitution therefor of commercial differences to be determined by the Secretary of Agriculture, and based on the actual commercial differences prevailing in spot cotton markets.

No. 3. Each contract or unit of 100 bales to call for an even running delivery; that is, the entire 100 bales of one grade; the seller to have the privilege, however, of tendering mixed or assorted grade deliveries within the range of the standard Government grades, by paying a penalty of \$1 per bale to compensate the buyer for handling mixed instead of even running deliveries, but not more than one grade to appear on any one certificate of tendered cotton. It is only fair that the buyer of cotton have an invoice or itemized bill of what he is paying for, which would be the effect of this provision.

No. 4. Each bale of cotton to be separately marked and tagged, and identifiable as to weight, grade and number, and date of its classification, and no recertification will be necessary for such lots as may be retendered.

No. 5. The tender of cotton on proforma bills to be prohibited.

No. 6. Trading to stop in each month's delivery on the 1st day of that month, the seller giving notice on the 1st day of each month of his tenders, which shall contain detailed description and identification of each bale, the buyer to accept tender the same day made and to pay for the cotton within three days thereafter.

No. 7. No cotton which has been certificated for a longer period than one year to be tenderable or recertificated. This will automatically force the cotton accumulated at New York into legitimate channels of trade, and not permit its being held there indefinitely in restraint of trade, as at present. It would force the speculative seller of cotton to go into the open market each season and buy the cotton that he is called upon to deliver; and as he would have to pay the normal market price for it, it would make the price of cotton futures a reflex of values in actual cotton and therefore a fair hedge to farmers, merchants, manufacturers, and all other legitimate cotton interests, which is the proper function of the Cotton Exchange and for which it is supposed to exist.

No. 8. We recommend a tax of 5 cents per hundred bales on cotton traded in according to the provisions of the bill to regulate the exchanges and a tax of \$5 per bale on any sales of contracts not conforming thereto, payment of the tax to be evidenced by stamps affixed to the contract.

No. 9. All moneys that are received from this tax, after paying expenses incurred by the Department of Agriculture to establish grades, etc., to be applied to a special cotton bureau for the purpose of fostering the cotton growing industry and better education of the farmers as to classing, ginning, baling, and marketing their cotton, and to fight the boll weevil and other hindrances to cotton raising. It seems to us proper that all of the taxes gathered from speculation in cotton should be used for the benefit of the cotton grower.

No. 10. Cotton of perished staple, or repacked, false packed, or mispacked, or that shows an excess of seed, sand, dirt, or dust, or excessive damage in ginning, or bales containing any pickings or linters, bollies or machine cotton, or that is less than seven-eighths of an inch in staple, not to be eligible for tender on contracts.

No. 11. The Department of Agriculture to furnish classers to class the cotton, for which they are to receive compensation commensurate with the value of their services.

1006

REGULATION OF COTTON EXCHANGES.

M. B. SEWELL.

COTTON BUYER FOR UNITY COTTON MILLS, UNITY SPINNING MILLS, ELM CITY COTTON MILLS.

LA GRANGE, GA., ..... 191..

.....B/C Cotton bought of .....

For % ..... cotton mills.

B/C	Mark.	Number.	Weight.	Producer.	Price.	Amount.
1						
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3						
4						
5						
6						
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..... B/C ..... pounds ..... @ ..... \$ .....

No. 16 B/C pounds.

(Stamped to Apr. 4, 1910.)

## NEW YORK COTTON EXCHANGE.

## OFFICE OF INSPECTOR IN CHIEF.

No. 224442.

6 bales compressed.

.... bales uncompressed.

I hereby certify that (6) six bales of cotton described in storage receipt No. 87776 of the independent store 114, dated March 29, 1910, with which receipt this certificate is identified as lot No. L-3762, mark, SCG, 6 bales were classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire March 31, 1911.

This certificate was delivered by the inspection bureau April 16, 1910. 2,533 pounds weight.

## GRADES.

....Fair.	....Good middling.	....Strict good ordi-	1 Middling tinged.
....Strict middling fair.	2 Strict middling.	nary.	....Strict low M. tinged.
....Middling fair.	....Middling.	....Good ordinary.	....Low middling
....Strict good middling.	....Strict low middling.	....Strict good M. tinged.	tinged.
	....Low middling.	1 Good mid. tinged.	....Middling stained.
		4 Strict mid. tinged.	

Checked by H. J. M.

(Stamped :) Duplicate samples asked for May 9, 1910.

And that the grades as specified above are correct.

New York, March 31, 1910.

(Canceled.)

.....  
Inspector in Chief.

This certificate not valid unless signed either by the inspector in chief, or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

Contract No. 614.

(Stamped to April 4, 1910.)

## NEW YORK COTTON EXCHANGE,

## OFFICE OF INSPECTOR IN CHIEF.

48 bales compressed.

.... bales uncompressed.

No. 223159.

I hereby certify that (48) forty-eight bales of cotton described in storage receipt No. 87716 of the independent store 114, dated March 28, 1910, with which receipt this certificate is identified as lot No. 3763, mark, y oT, 48 bales were classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire March 31, 1911.

This certificate was delivered by the inspection bureau April 11, 1910. 21,768 pounds weight.

## GRADES.

....Fair.	....Good middling.	....Strict good ordinary.	20 Middling tinged.
....Strict middling fair.	2 Strict middling.	....Good ordinary.	9 Strict Low M. tinged.
....Middling fair.	....Middling.	....Strict good M. tinged.	....Low middling tinged.
....Strict good middling.	....Strict low middling.	....Good mid. tinged.	2 Middling stained.
	....Low middling.	15 Strict mid. tinged.	

Checked by H. J. M.

(Stamped:) Duplicate samples asked for May 9, 1910.

And that the grades as specified above are correct.

New York, March 31, 1910.

(Canceled.)

.....  
This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

Contract No. 614.

(Stamped to Apr. 4, 1910.)

## NEW YORK COTTON EXCHANGE.

## OFFICE OF INSPECTOR IN CHIEF.

No. 227284.

20 bales compressed.

.... bales uncompressed.

I hereby certify that (20) twenty bales of cotton described in storage receipt No. 87717 of the Independent Store 114, dated March 28, 1910, with which receipt this certificate is identified as lot No. L-3764, mark YOT, 20 bales were classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire March 31, 1911.

This certificate was delivered by the inspection bureau April 11, 1910. 9,245 pounds weight.

## GRADES.

....Fair.	....Barely good middling.	4 Fully low middling.	....Good mid. tinged.
....Strict middling fair.	....Strict middling.	....Low middling.	2 Strict mid'g tinged.
....Middling fair.	....Fully middling.	....Strict good ordinary.	4 Middling tinged.
....Strict good middling.	....Middling.	....Good ordinary.	3 S't low mid. tinged.
....Fully good middling.	....Barely middling.	....Strict gd. mid. tinged.	....Low mid. tinged.
....Good middling.	7 Strict low middling.		....Middling stained.

Checked by H. J. M.

And that the grades as specified above are correct.

New York, March 31, 1910.

(Stamped:) Duplicate samples asked for May 9, 1910.

This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

(Canceled.)

.....  
Inspector in Chief.



(Stamped to Apr. 4, 1910.)

## NEW YORK COTTON EXCHANGE.

## OFFICE OF INSPECTOR IN CHIEF.

No. 227212.

14 bales compressed.  
.... bales uncompressed.

I hereby certify that (14) fourteen bales of cotton described in storage receipt No. 87721 of the Independent Store 114, dated March 28, 1910, with which receipt this certificate is identified as lot No. L-3768; mark, F V J, 14 bales were classed by the classification committee as follows.

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire March 31, 1911.

This certificate was delivered by the inspection bureau April 16, 1910. 6,370 pounds weight.

## GRADES.

....Fair.	....Barely good middling.	....Fully low middling.	2 Good middling tinged.
....Strict middling fair.	....Strict middling.	....Low middling.	6 Strict mid'g tinged.
....Middling fair.	1 Fully middling.	....Strict good ordinary.	....Middling tinged.
....Strict good middling.	1 Middling.	....Good ordinary.	....S't low mid. tinged.
....Fully good middling.	2 Barely middling.	....Strict gd. mid. tinged.	....Low middling tinged.
....Good middling.	2 Strict low middling.		....Middling stained.

Checked by H. J. M.

And that the grades as specified above are correct.

New York, March 31, 1910.

(Stamped:) Duplicate samples asked for May 9, 1910.

This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

(Canceled.)

.....  
Inspector in Chief.

(Stamped to Apr. 4, 1910.)

## NEW YORK COTTON EXCHANGE.

## OFFICE OF INSPECTOR IN CHIEF.

No. 227214.

20 bales compressed.  
.... bales uncompressed.

I hereby certify that (20) twenty bales of cotton described in storage receipt No. 87724 of the Independent store 114, dated March 28, 1910, with which receipt this certificate is identified as lot No. L-3771, mark, CMY, 20 bales were classed by the classification committee as follows.

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire March 31, 1911.

This certificate was delivered by the inspection bureau, April 16, 1910. 9,980 pounds weight.

## REGULATION OF COTTON EXCHANGES.

## GRADES.

....Fair.	5 Barely good middling.	....Fully low middling.	....Good middling tinged.
....Strict middling fair.	....Strict middling.	....Low middling.	....Strict mid'g tinged.
....Middling fair.	....Fully middling.	....Strict good ordinary.	....Middling tinged.
1 Strict good middling.	....Middling.	....Good ordinary.	....S't low mid. tinged.
3 Fully good middling.	....Barely middling.	....Strict gd. mid. tinged.	....Low middling tinged.
11 Good middling.	....Strict low middling.		....Middling stained.

Checked by H. J. M.

And that the grades as specified above are correct.

New York, March 31, 1910.

(Stamped:) Duplicate samples asked for, May 9, 1910.

This certificate not valid unless signed either by the inspector in chief, or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

(Canceled.)

.....  
*Inspector in Chief.*

Stamped to Apr. 4, 1910.

## NEW YORK COTTON EXCHANGE.

## OFFICE OF INSPECTOR IN CHIEF.

No. 227215.

1 bale compressed.

.... bales uncompressed.

I hereby certify that (1) one bale of cotton described in storage receipt No. 87725 of the independent store 114, dated March 28, 1910, with which receipt this certificate is identified as Lot No. L-3772, mark, C M Y, 1 bale was classed by the classification committee as follows:

This classification is in accordance with and subject to the existing standards of the New York Cotton Exchange.

This certificate will expire March 31, 1911.

This certificate was delivered by the inspection bureau April 16, 1910. 334 pounds weight.

## GRADES.

....Fair.	....Barely good middling.	....Fully low middling.	....Good middling tinged.
....Strict middling fair.	....Strict middling.	....Low middling.	....Strict mid'g tinged.
....Middling fair.	1 Fully middling.	....Strict good ordinary.	....Middling tinged.
....Strict good middling.	....Middling.	....Good ordinary.	....S't low mid. tinged.
....Fully good middling.	....Barely middling.	....Strict gd. mid. tinged.	....Low middling tinged.
....Good middling.	....Strict low middling.		....Middling stained.

Checked by H. J. M.

And that the grades as specified above are correct.

New York, March 31, 1910.

(Stamped:) Duplicate samples asked for May 9, 1910.

(Canceled.)

.....  
*Inspector in Chief.*

This certificate not valid unless signed either by the inspector in chief or by the chairman of the warehouse and delivery committee.

Subject to the by-laws and rules of the New York Cotton Exchange.

# REGULATION OF COTTON EXCHANGES.

1011

No. S2.

NEW YORK, May 2, 1910.

HOPKINS, DWIGHT & Co., TO CRAIG-& JENES, DR.

Terms cash. Payable by certified check.

27 William Street.

Marks: L. 3762.....	6	Store. Inv. 114....	109 B/c.
63.....	48		
64.....	20		
68.....	14		
71.....	20		
2.....	1		
	<hr/>		
	109 B/C		

109 B/C weighing 50,180 lbs.

Less allowance 109 lbs. net, 50,071 lbs., @ \$14.50..... \$7,260.30  
 1/2 cost inspection, classification, and certificate, @ 12 1/2c..... 13.63

Premium for staple..... \$7,273.93  
 For grade 1,371, off middling..... 62.98  
 Storage and labor, paid to 4/4. Allowance..... 21.80  
84.73

Paid on account, .....	Amount due.....	7,189.18
	Less error.....	8
		<hr/> 7,189.19

## CLASSIFICATION.

Bales.	Above middling.	100ths.	Bales.	Below middling.	100ths.
	Fair.....@			Middling.....@ Basis.	
	Strict middling fair.....@		2	Good middling tinged.....@	
	Middling fair.....@		9	Barely middling.....@ 12	24
1	Strict good middling.....@ 66	66	4	Strict low middling.....@ 26	226
3	Fully good middling.....@ 56	165		Fully low middling.....@ 42	168
11	Good middling.....@ 44	484		Low middling.....@	
5	Barely good middling.....@ 33	165		Strict good ordinary.....@	
2	Strict middling.....@ 22	44		Good ordinary.....@	
2	Fully middling.....@ 11	22		Strict middling tinged.....@ 18	465
	Strict good middling tinged.....@		27	Middling tinged.....@ 25	636
1	Middling.....@ Basis.		25	Strict low middling.....@	
3	Good middling tinged.....@ "		12	tinged.....@ 60	720
			2	Low middling tinged.....@	
				Middling stained.....@ 75	150
28			81		

Avg. wgt., 459.37.	Total above middling..	9.46	Total below middling.....	2,317
	Total on middling.....			
	Total off middling.....	2,317		
		<hr/> 1,371		

E. & O. E.

WAREHOUSE OF THE SECURITY WAREHOUSE Co.,  
 La Grange, Ga., ———, 190—.

Season 1909-1910.

Received of ———, one bale cotton marked, numbered, etc., as below,  
 deliverable to this receipt only upon payment of customary charges and all advances,  
 acts of Providence excepted. Insured free. No. S 8996, weight ———, reweight ———.

Producer, ———.

For the company.

**STATEMENT OF MR. FRANK B. HAYNE, COTTON MERCHANT, NEW ORLEANS, LA.**

The CHAIRMAN. State your name, residence, and business, for the record.

Mr. HAYNE. Frank B. Hayne, New Orleans, La., cotton merchant.

I am a member of both the New York and New Orleans Exchanges; in fact, I am getting to be one of the old members of both those exchanges, but I am not here, really, as a representative of either exchange. I am here as a cotton merchant who used to do a very large business with the cotton mills.

I consider, as a cotton merchant, that the exchanges are absolutely necessary to the carrying on of modern cotton business; that, now that the crop reaches 15,000,000 bales, it would be most difficult and would create terrible confusion and be a great injury to the producer, who, I think, stands first, and also to the manufacturer, if the exchanges were abolished. On the other hand, I think that it is absolutely necessary that the exchanges should be regulated—both the exchanges, the New Orleans as well as the New York Exchange. At present the cotton exchanges are of little value to the legitimate cotton man—the buyer, the cotton merchant, or to the spinner.

Not a great many years ago I used to sell 40,000 or 50,000 bales ahead in the summer to eastern and southern mills. I would buy future contracts, considering that I was making a legitimate transaction; I was hedging myself. For some reason now those future contracts no longer protect you.

The futures can go down and the spots remain the same. I believe that it is absolutely necessary for the good of the southern planter, in order that the South may realize the full value of the cotton crop that it grows every year, that exchanges should be regulated in such a manner that the price of futures should be regulated by the price of spots, and not as it is at present, that the price of spots are depressed by the manipulations of future markets. The question, of course, is how this is to be brought about.

The CHAIRMAN. The first question is how this manipulation is carried on, and then would come the proposition of how to remedy the evil.

Mr. HAYNE. This manipulation is brought about by fixed differences, for one point, by, for instance, New York having a standard of cotton that is different from the other future market, New Orleans, a standard which is very much lower. Middling in New York is not the same grade as middling in New Orleans. Mr. Parker has explained how these fixed differences can affect spot cotton. For instance, in the year 1907, I think it was—I am mistaken; it was not in 1907, but it was what is known as a storm year. In 1906 we had a storm early in October which spread over almost all of the Southern States in the gathering season of the cotton. It took place early in the season. The cotton was all open. After this storm, of course, an enormous and unusual quantity of the low grades were created. In November—and it was then the last time that the New York Exchange fixed its differences—they placed low-middling cotton at 9/16 difference over middling. I think I am right. It might have been a half. At the same time in almost every place in the South

low-middling cotton was selling at from  $1\frac{1}{2}$  to  $1\frac{1}{2}$  cents under middling. Now, a man who had bought a contract, basis middling, it was a dead certainty he was not going to get a bale of middling, but they were going to give him, on this contract, low middling at  $9/16$  under middling, because they could buy it in the South at probably  $1-9/16$  under middling. Therefore, I am firmly of the opinion that fixed differences are detrimental to the cotton business and the cotton planter. Naturally if the price of futures goes down in the cotton exchange of New York or New Orleans it bears down to a certain extent the price of spot cotton in the South, perhaps, not so much as the futures themselves decline, but it certainly pulls down and depreciates its value.

In 1899 the cotton crop of the South brought, I think, \$275,000,000. The cotton crop now averages nearly a billion dollars a year, and certainly, gentlemen, this is a question that every one of us must feel that there is nothing, hardly the Mexican war situation, which can be of greater importance to every one of us than what this billion dollar crop brings. If any manipulations or exchange can make the South get \$700,000,000 or \$600,000,000 instead of \$1,000,000,000 it is the duty of you gentlemen to look further into it and prevent it.

Mr. DOOLITTLE. To reenforce that argument, 65 per cent. of this cotton goes abroad.

Mr. HAYNE. Sixty-five per cent goes abroad, and therefore it does not mean that the American citizen that uses the cloth, that uses the output of the mills, is paying the difference between that \$275,000,000 and that \$1,000,000,000; but when the crop of the South brings \$1,000,000,000 over \$600,000,000 of it comes from abroad. It is the balance of trade of the United States to-day. We are using up nearly all of our wheat and our corn, but we are still exporting two-thirds of our cotton crop.

As I say, I earnestly and conscientiously believe that you gentlemen would make a grave and fatal blow to the South, and it would be reflected on the whole United States, though not as much as it would affect the South itself, if you abolish the exchanges and leave the producer face to face with the consumer. It is a certainty, gentlemen, that the consumer will get the best of it. He is in fewer numbers. He is bound to be able to organize more easily to depress than all the hundreds of thousands of producers to uplift the price or protect the price of cotton.

While I believe the exchanges should not be abolished, there is no question that they should be regulated, and they can be regulated and very easily regulated, and I believe that the Smith bill and the Lever bill both have some clauses in them that certainly should be altered. But a combination of the two, with perhaps a few variations and a few alterations, would certainly bring about this result, a result that would mean that cotton on the exchange would sell in the neighborhood, at any rate, at what it is actually worth in the South.

The CHAIRMAN. Now, Mr. Hayne, will you indicate those changes that you have in mind?

Mr. HAYNE. I met Mr. Callaway, and I met Mr. Parker on the train coming here. I had not seen either one of them for quite a while. Mr. Parker had written out nothing, and Mr. Callaway had. There are not a great many things that I find on which I differ in

any way from them. I think I can say that I indorse pretty much everything that Mr. Parker had to say. So far as Mr. Callaway is concerned, there are a few points that I differ with, and I will take them up in a moment.

I think the fundamental thing is that both exchanges should be forced to adopt the existing Government standard. The Government has already adopted a standard.

Mr. HAUGEN. I understand by that that you are opposed to the changes in the standards which Mr. Callaway suggested?

Mr. HAYNE. No; I claim that both cotton exchanges should be forced to adopt the existing Government standards, consisting of nine grades, good ordinary to middling fair, exclusive; also that the Government should make up standards of good middling, strict middling, middling, and strict low middling, tinges, and middling stained, and that not only that New York and New Orleans should be forced to adopt these Government standards and base their quotations on the same, but that every spot market that sends out quotations to the trade should also be forced to adopt these standards. Savannah middling is only about Liverpool middling, while Augusta middling is about Liverpool fully to good middling; so there is often as much as one-half cent difference between the quotations between the middling of these two markets. As it naturally confuses the public, the planter, and the manufacturer, it is evident that all spot markets should by an act of Congress be forced to adopt the Government's standards. I state here, later on, that I think, as a personal opinion, that strict good ordinary to strict good middling is sufficient.

Mr. PARKER. That is what I do.

Mr. HAYNE. But the existing standards are mine. Personally I prefer that there should be only the seven, with the addition of these three grades of tinges, which certainly should be added to the Government standards. And my idea is, what Mr. Callaway has explained, that not only New Orleans and New York should adopt those standards, but that every spot market that sends out quotations should be made to adopt them. Augusta, which sells fully middling cotton and quotes it at 13½, and Savannah sells Liverpool middling cotton or strict low middling to middling cotton, calling it middling, and sells it at 13 cents. They are fooling the public, and it is wrong. If the Government says this is middling, it is middling in every State where cotton is sold; and the Government standard should be adopted everywhere, and any market sending out quotations should only quote the Government standards.

Mr. TAYLOR. How are you going to force them to adopt this under Mr. Lever's bill, unless you deny them the use of the mails and telegraph?

Mr. HAYNE. There will be no question about the New Orleans market, as they have already adopted the Government standards. The New York market has agreed to adopt it from the 1st of May.

Mr. HAWLEY. From the 1st of May, with the nine grades only or with the nine grades and the variations?

Mr. HAYNE. They have adopted it with the variations.

Mr. MARSH. There is one point there that I think Mr. Hayne should elucidate a little. When he says that they have adopted the Government standards it is perhaps not quite clear to everybody—

it certainly is not to me—whether he means rigidly and strictly Government standards, or whether he means Government standards, as Mr. Hawley has said, with variations—that is, does he mean, when he says that the New Orleans exchange has adopted the Government standards, that there are in use in the New Orleans exchange nine standards and only nine, or does he mean that there are in use in the New Orleans exchange nine standards with a number of variations from each standard?

Mr. TAYLOR. That is what you have—nine, with these variations?

Mr. HAYNE. I am going to come to that.

Mr. MARSH. I beg your pardon.

Mr. HAYNE. What I was saying was that the spot markets—everybody that sends out quotations should send out their quotations based on the Government standards.

Mr. TAYLOR. How are you going to make them do that?

Mr. HAYNE. Gentlemen, I thought Congress could do anything.

Mr. TAYLOR. They can not do anything, but the Government can prohibit the use of the mails or the telegraph for any other quotations. Now, Mr. Callaway, and, I understand, Mr. Marsh, say that is impracticable and impossible, because you debar the Liverpool and foreign quotations from the mails because they do not use these Government standards. How are you going to get around that?

Mr. HAYNE. I do not think that there would be any objection to it.

Mr. CALLAWAY. That bill would prohibit the use of the mails and telegraph lines to spot markets that did not use the American standards.

Mr. HAYNE. Why should they object? I can not see any reason why those markets should object to it.

Mr. TAYLOR. I do not see any either, but still what you want to do, you want to have the same thing all over, and you do not have it all over, and there is no law that can enforce it equally everywhere. You will find one city like Galveston that will be using one classification and you gentlemen will be using another, and by and by you will say, "Here, these fellows are getting an advantage over us, and why should we be held strictly to this thing and the other fellow get away with it?" That is your trouble.

Mr. HAYNE. Well, if New York and New Orleans, which are the only two future markets, adopt these standards, as they have done, then it has been proposed that five or seven large interior markets, or places where large amounts of spot cotton is actually sold, should adopt it, and certainly you can find five or seven markets which furnish the quotations and furnish these differentials between grades you certainly will be able to get five or seven large markets to adopt these standards.

Mr. TAYLOR. You can not get them to do it unless you get a law, and you will have this cow proposition on your hands.

Mr. HAYNE. There is no objection to it.

Mr. TAYLOR. There is no objection to what?

Mr. HAYNE. These markets would have no objection whatsoever to adopting it. I feel absolutely confident that they would adopt it.

Mr. TAYLOR. Are you in favor of this legislation whereby the telegraph and mails can not be used for any other quotations? Are you in favor of that sort of legislation?

Mr. HAYNE. I could not answer that; but I could answer for all the southern markets this, that they are in favor of the New York and New Orleans exchanges having rules and having a contract that will be fair and square in every way, and that they will be willing to assist in the obtaining of such a contract by adopting the Government standards, whether they could be compelled to or not. They would be willing to do so and assist in making these differences; and if these five markets or seven markets and the New Orleans and New York markets adopted it, as a matter of fact it would make very little difference whether the other market adopted it or not.

Mr. MOSS. Do I understand you to say that these markets would be willing, in adopting the Government standards, at the same time to have the Government take over the grading and to have the graders themselves be governed by the Government?

Mr. HAYNE. Gentlemen, if you will allow me, I think that that question is one that has nothing whatsoever to do with the future bills.

Mr. HAUGEN. But you deal with Government standards here in the futures. If you apply it to the futures, should they not also apply to the cash transactions? If the uniform standard is of value for your future transactions, is it not of equal value in your cash transactions? That is, if the spinner over in Boston buys from you 50 bales of cotton, would it be to his advantage or disadvantage to have a uniform standard? Would it be to his advantage to call upon Uncle Sam to furnish the inspector and to certify as to the grade of the cotton?

Mr. HAYNE. I think it would.

Mr. HAUGEN. Or is there an advantage in having the various markets grade in their own way, as they are doing it at the present time.

Mr. HAYNE. In my opinion it would be an advantage to the entire cotton trade, to the spinners in Boston and in Greenville, S. C., and everybody else connected with the cotton trade to have one standard.

Mr. HAUGEN. The cotton grower, the spinner, and all concerned?

Mr. HAYNE. All concerned.

Mr. TAYLOR. Mr. Callaway went a little further and said it is true that your exchanges make classifications, but they do not stick to them, that they change them whenever the wind changes. He says he would have the Government make these classifications and make your exchange adopt these classifications and also adopt these certificates showing the kind and character of cotton on each bale, and then he says everything will be on the level.

Mr. HAUGEN. And have all contracts based upon standards fixed by the Government.

Mr. HAYNE. Both exchanges have adopted that already.

Mr. HAUGEN. It is not what they have adopted, is it; but it is that Congress should compel them to do it, through the Secretary of Agriculture.

Mr. HAYNE. It is absolutely that the Government should provide for it.

Mr. HAUGEN. This bill does not provide for that. That is what I am getting at.

Mr. HAYNE. The bill does provide for it. The bill provides that the transactions should be based on Government standards.



Mr. HAUGEN. But has nothing to say about the cash transaction, what you call spot; it does not provide for the uniform standard.

The CHAIRMAN. That will be covered in another bill.

Mr. HAUGEN. If it is good for one it is good for the other.

The CHAIRMAN. Not in this particular bill. It would have no relation to this particular subject.

Mr. HAUGEN. But the propositions are now being considered by the committee, and it was so announced.

Mr. TAYLOR. They seem synonymous, to my mind.

Mr. HAYNE. As far as the Government classers are concerned, I have never heard until to-day a suggestion that the Government should at New York and at New Orleans class according to the Government standards all cotton that was sent there for delivery on contracts.

Mr. Callaway is the first that I ever heard suggest that. I want to say that I think it is a very good suggestion, if it can be brought about.

What I was saying was that these five markets, or all markets, should be compelled to adopt the Government standards. Whether that can be enforced or not is up to you gentlemen. I could not say.

Mr. HAUGEN. I might say that I do not know as to cotton, but I believe there is a bill pending in the Senate, and I believe the Senate has been giving it hearings, and it is proposed to standardize grain; but we have expended more than half a million dollars in investigating, and so far we have no standards. We have a few samples over here that are being sold at from \$20 to \$35, but they amount to nothing; you might just as well not have them; you might just as well throw them in the safe. It is left to the option of your boards or exchanges to accept them or not, but there is nothing compulsory except by mutual agreement. Now, then, would you compel them to adopt standards?

Mr. HAYNE. Absolutely compel them.

Mr. HAUGEN. You would fix standards and compel them to adopt them?

Mr. HAYNE. Fix standards and compel them to adopt them.

Mr. HAUGEN. And let all contracts be based upon that?

Mr. HAYNE. And New York and New Orleans have already adopted these standards.

Mr. HAUGEN. They are not the only cities in the United States.

Mr. HAYNE. But they are the only future markets.

Mr. HAWLEY. I would like the gentleman to answer the question that I asked awhile ago, because you left me very much in doubt whether they have adopted this standard with the nine grades without variation or modification.

Mr. HAYNE. They have not. New York has never used them as yet. They have agreed to adopt them May 1. New Orleans has adopted them and used them for several years, but it makes modifications of them.

Mr. HAWLEY. And so will the New York Exchange?

Mr. HAYNE. That is for you gentlemen to decide, whether New Orleans shall continue to do so and whether New York shall be allowed to do so.

Mr. HAUGEN. You would be in favor, then, of writing it in the law and compel them to use these standards?

Mr. HAWLEY. The fact that they have adopted them with modification is an indication that they have not either one of them adopted them.

Mr. HAYNE. They have adopted these standards. They are the basis on which at present New Orleans delivers and receives cotton.

Mr. SLOAN. When they get through will New York and New Orleans have the same standard?

Mr. HAYNE. They will have the Government standard.

Mr. SLOAN. With some modifications?

Mr. HAYNE. That I do not know. They will certainly have the same standards.

The CHAIRMAN. It is not intended that they shall have any modifications at all under the terms of my bill, if it is fixed by law.

Mr. HAUGEN. Would you direct the Secretary to fix the standards?

The CHAIRMAN. The Secretary has a right to fix nine standards. What you call the grades is what these gentlemen call the standards.

Mr. HAUGEN. The adoption of these standards by these exchanges voluntarily means that they have accepted the Government's classifications in a tentative way, with variations or modifications of the classification to suit their own ideas in their business.

Mr. HAYNE. Certainly.

Mr. HAUGEN. But it really amounts to nothing as being an acceptance of the Government standard.

Mr. HAYNE. I think it means a great deal.

Mr. REILLY. Except that they are agreeable to adopting the standard.

Mr. HAYNE. I do not agree that a great deal has not been accomplished. Certainly at present that is the basis, the Government standards.

Mr. HAWLEY. I am trying to get the actual status of the matter before the committee. I am not arguing with you at all.

Mr. HAYNE. The Government standards at the present are nine grades. You take this crop this year and there are nine grades of white cotton. This has been an abnormally low-grade crop. Of course it is all guesswork to say what percentage of the cotton crop would have been deliverable on these nine Government standards if the delivery was limited to those nine grades, but I will tell you, gentlemen, it would have been almost impossible to have carried on the cotton business if it had been limited to just those nine grades of white cotton, when white cotton did not exist in this crop, and I think it would have been very fatal to the cotton business if it had been held to that.

Mr. HUMPHREYS of Mississippi. I do not like to interrupt you, but on this particular point I want to ask this question: You have had so much experience in handling cotton all over the country that I was wondering if you had gotten far enough along where it would be safe to write in the law just the specific grade, or whether it would be safer to permit the Secretary of Agriculture to do that.

Mr. HAYNE. Suppose I read this. I think it answers that. I am taking a little different attitude than I expected to. I am objecting to only the nine grades, while I got up here and intended to object to the way in which the exchanges, or the New Orleans exchange

especially, treats the Government standards at present. But I will read this. I have gone from one extreme to the other. I have here:

The fifth clause of the Lever bill is very good, but it should add after pickings or linters, "bollies" as being undeliverable; and I think it should specify that any bale showing an excess of seed, sand, or dirt that will depreciate its value more than one-eighth cent from the classification of the bale, should be undeliverable.

That is practically the rule in both exchanges now.

Mr. SLOAN. Who would pass upon the excessive sand and dirt, whether it is to be accepted or rejected?

Mr. HAYNE. I have put in here, "If it has an excess of sand that would deteriorate the value of the bale an eighth of a cent." I think that is a rule that would be agreed to.

Mr. MARSH. That would allow considerable cotton to be delivered that is not now deliverable.

Mr. HAYNE. I think if it has a little grit or sand in it, that does not depreciate it more than an eighth of a cent below the classification, that it ought to be delivered.

Off-colored and spotted cottons are deliverable on both the New Orleans and New York exchanges (and New York classes it down and New Orleans calls it off color), and, I think, should be deliverable, as there is a great deal of that style of cotton in almost every crop; but it should be provided that such off-colored and spotted cotton should not be tenderable if the color depreciated its value more than one-fourth cent from the classification of the bale.

While there are nine Government grades, they are made up of white cotton. This year maybe 60 or 70 per cent of this crop was what you would call off color. It would not match that Government type. Nothing would be hurt if that off-colored bale could be delivered against the grade of that Government type if that off color did not depreciate its value more than a quarter of a cent. If you make a contract, gentlemen, that nobody will sell, you hurt the business almost as much as abolishment.

Now, I ought to say this, gentlemen. I know there is not any one of you that is more anxious for a good contract than I am. I am very much as Mr. T. J. Majors, a well-known old-time New Orleans bull. He was put on the witness stand and asked this. The examiner said, "Mr. Majors, I believe you are a buyer and seller of cotton." Mr. Majors said, "No; I am a buyer of cotton." [Laughter.] And that is just about what I am. I have always been a bull, and everybody knows it, on cotton, and sometimes very much to my cost. But at the same time, I believe if the gentlemen representing the southern constituents, if I suggest this contract and state it would be fair and equitable, I believe that the planters in the South and your constituents would be willing to abide by anything that I would say. That may be, gentlemen, perhaps, an egotistical statement, but I have all my life tried to uplift the price of cotton. I have never tried to depress it. And the South knows that.

Mr. HUMPHREYS of Mississippi. I think most of us agree to that.

Mr. HAYNE. Therefore, while I think there are entirely too many modifications allowed—I am speaking here on the only market that has adopted the Government standard, which is using it at present, which is New Orleans—while there are entirely too many modifications, still, gentlemen, do not shut them off entirely and confine

them to these nine grades of cotton and two grades of tinges, because it does not cover enough of the crop that is tendered.

Mr. WEBB. Do you not think that the strict delivery of spotted cotton on the exchange in New York would have a tendency to depreciate the value of cotton, of this spotted cotton? Don't you think the buyer would be able to buy it cheaper?

Mr. HAYNE. Of course that is a question, and it is a pretty hard question for me to answer. I rather think it would.

Mr. HAUGEN. I understand that in grain transactions they are restricted to three grades.

Mr. HAYNE. In grain; yes.

Mr. HAUGEN. As I understand it, it is proposed here by the other gentlemen that we restrict cotton to nine or ten grades, and you are in favor of expanding and admitting spotted horses, as it was referred to here. That is, you do not believe that the nine grades is liberal enough?

Mr. HAYNE. No; but I do not believe that you should simply allow race horses to be delivered, or horses of the 2.40 class. I think a good sound horse that can haul a wagon or can plow should be allowed to be tendered also, but not a lame spavined or a one-eyed horse, you know.

Mr. GLENNY. Mr. Hayne, just right there on that question just asked you. Grain is graded down in three grades, and those three grades only are tenderable on future contracts. But you can make up the No. 2 wheat; you can manufacture No. 3 wheat by mixing your grain from different bins to bring them up to the proper weight, thereby making the proper grade. Cotton you can not mix; it is what it is, and it is what the farmer furnishes, and nobody can make a middling bale of cotton out of anything; you could not make a spotted bale of cotton out of anything, and you could not make a tinged bale of cotton out of anything. Nature and the farmer are the only ones that can make the cotton, whereas grain can be utilized; you can take your lower grades of grain and mix them with your higher grades of grain and deliver them on the market, and there is, therefore, not the necessity for the number of grades of grain as there is of cotton. Low grades of cotton are varieties from the white cotton.

Mr. HAUGEN. Mixed cotton you can not deliver on contract?

Mr. GLENNY. You can not mix it.

Mr. HAUGEN. You see there are only three grades of grain.

Mr. GLENNY. That is what is deliverable, I think, on contract. It is graded more or less by weight, and you can make up the grades by mixing, but you can not do that with cotton.

Mr. HAUGEN. The person holding the grain contract is restricted to three grades, and here it is proposed to restrict him only to 10 grades.

Mr. GLENNY. I do not want to take Mr. Hayne's time. If you will ask me those questions when I am on the stand I will endeavor to answer them.

The CHAIRMAN. You may proceed, Mr. Hayne.

Mr. HAYNE. In regard to the question that has been asked, I went on further here. As I say, I took the other view, in writing this:

Quarter grades should be entirely eliminated. In other words, only the grades of which the Government has made standards should be deliverable.

New York and New Orleans at present both deliver quarter grades. That is, New York delivers barely good middling and New Orleans calls it strict to good middling, a type half way between the value of strict middling and good middling. New York also delivers fully low middling and New Orleans low to strict low middling, which the buyer has to take at half the difference between strict low middling and low middling. These are what are called quarter grades and certainly should be entirely eliminated. No mill buys, and no merchant can sell on these quarter-grade descriptions. The orders come from either good middling, strict middling, or middling, and a bale of barely good middling or barely middling can only be sold at the grade below, namely, strict middling or strict low middling. The planter does not receive, if he ships his cotton to a factor, a better price for a bale of barely middling than he does for a bale of strict low middling; therefore it is manifestly unfair that the receiver of cotton on contract should be forced to pay an extra price for quarter grades when he can only sell half grades.

I am limiting very much the number of grades. That is, I am suggesting that they should be limited; but I think, if confined to only the nine Government standards, that that would be going a little too far. New Orleans really delivers a greater number of grades—a great many more—than New York. I think it should be stopped. My idea is that you have got the nine Government standards, and they should be left as they are now. I have added the three standards for tinges. They are middling fair, strict good middling, good middling, strict middling, and middling, and strict low middling, low middling, strict good ordinary, and good ordinary. Both of the exchanges at present deliver barely middling. The Government has no standard of barely middling. The Government has a standard of middling and a standard of strict low middling. I claim that that should not be allowed. A bale is either strict middling or strict low middling. If the buyer has to pay for this hybrid grade, it makes him that much more reluctant to receive cotton. In other words, he runs away from the contract, and the market is more easily manipulated.

Mr. GLENNY. Mr. Hayne, may I ask you who loses that difference between the grades?

Mr. HAYNE. The receiver, absolutely. The receiver loses it, Mr. Glenny.

Mr. GLENNY. Does not the receiver pay for what he gets, and does not the deliverer get paid for what he delivers?

Mr. HAYNE. No; I do not think so.

Mr. GLENNY. If the difference between middling and strict middling is half a cent, and I deliver the middling for strict middling, the difference would be a quarter of a cent that I would get for my middling strict?

Mr. HAYNE. You—the deliverer—get it; yes.

Mr. GLENNY. I get a grade that is valued at that price. I am simply giving to the receiver something for which he pays its proper value.

Mr. HAYNE. I disagree with you.

Mr. GLENNY. Well, then, you would class the strict low to middling down into the strict low middling?

Mr. HAYNE. Absolutely; yes. And I say that that is one of the worst features in both of the contracts at the present time—New Orleans and New York—the quarter grades. There are two spinners here. I would like to know if they will pay me any more for 100 bales of low and strict low middling than they will pay me for 100 bales

of middling. No one will get a fraction of a cent more for the low to strict low middling than he does for the low middling. It is a grade that is not recognized by the trade. Therefore the only man that gets such an extra value is the man that delivers it to the buyer—the receiver—the man that takes up cotton on contract, whether he is a spinner or whether he is a cotton merchant.

MR. PARKER. I would emphasize what Mr. Hayne says. I was a member of the classification committee in attempting to standardize the cotton in standard Government grades. You take the samples shown, and no two samples are exactly the same. One sample is slightly over or under, but the average mixture makes it up. Therefore when you have the quarter grades it simply depreciates the whole.

MR. GLENNY. When you ship cotton to the shipper who has called for middling, can you put a little lower than middling and a little higher than middling and make your shipment middling—a quarter of a grade?

MR. HAYNE. No; not a quarter of a grade. You are allowed a certain latitude. If you ship 10 bales lower than the grade you sell, and 20 bales higher than the grade you sell, you do not get any credit for it whatsoever, but you will get a claim on the 10 bales lower. Mr. Webb, am I right or wrong?

MR. WEBB. You are right.

MR. HAYNE. Therefore, gentlemen, while I believe in these quarter grades absolutely being eliminated, stick to the Government standard—good middling, strict middling, and strict low middling, etc. None of your barely middling and none of your barely good middling. They should be eliminated. But I do think that off-colored cotton should be deliverable. Take after a certain season of the year, there is hardly any cotton that will come up to the Government standard. I think if you would allow off-colored cotton to be received—but not if that off-colored cotton depreciated in value more than a quarter of a cent—I think it would be all right.

MR. HUMPHREYS of Mississippi. May I ask you a question, Mr. Hayne?

MR. HAYNE. Certainly.

MR. HUMPHREYS of Mississippi. What is the general tendency, then, on the future contracts of the privilege of delivering quarter grades to the buyer?

MR. HAYNE. Well, I consider that in both exchanges they have always had a sellers' contract. Everything is in favor of the seller. The receiver, undoubtedly, in this case of quarter grades, is just simply out of pocket that quarter grade. For instance, this year in the New Orleans market low middling is thirteen-sixteenths of a cent off of middling. Strict good ordinary was a cent and thirteen-sixteenths. In other words, there was 1 cent a pound difference between strict good ordinary and low middling. Yet the receiver of the cotton had to take a hybrid grade that no mill or no cotton man knows anything about, called strict good ordinary to low middling and he had to take it at the difference in value between low middling and strict good ordinary and lost \$2.50 a bale, in my opinion, on every bale of the grade that he took. And that is the reason that we have

had in the New Orleans market, for the first year that I can remember, future contracts and current months selling 50 and 60 points under the price of spot.

Mr. PARKER. Has not the effect of these quarter grades been to depreciate the whole price?

Mr. HAYNE. Absolutely. If you make it obnoxious to the buyer to buy a stock of goods, you know the stock of goods is going down—it is going to depreciate in value. If you make it too hard for the buyer, he will not buy, or if he does buy he buys at a price that will compensate him for these discrepancies.

The CHAIRMAN. Your argument is conclusive, Mr. Hayne, that the less the number of grades deliverable the higher the price of the contract—within reason.

Mr. HAYNE. Of course, within reason.

The CHAIRMAN. Now, to get right to the bill, do you think the provisions in both the Senate and the House bills as regards that are effective? Do you think it will work?

Mr. HAYNE. Now, I have got to argue the other way: I think it is a little too effective.

The CHAIRMAN. All right; we want to get both sides of the question.

Mr. HAYNE. I think it is a little too effective. I do not think that the seller has recognized too well up to this time the rights of the buyer. I do think that the seller has got rights, and you can not make him sell anything that is too hard on him.

The CHAIRMAN. What would be your suggestion in the House bill as to paragraph 5, section 5, at the bottom of page 4, H. R. 15318? What would be your suggestion to make that more effective?

Mr. HAYNE. Well, I think it is an awfully good clause.

The CHAIRMAN. You think we about hit the nail on the head there?

Mr. HAYNE. With certain exceptions, I do.

Mr. HAWLEY. You suggested putting in bollies and one other thing.

Mr. HAYNE. Yes; I think it ought to have in it bollies, and Mr. Callaway suggested the gin cut and machine cotton.

Mr. HUMPHREYS of Mississippi. As regards excess of seed sand and dirt and excessive damage, is that provision definite? Who is to determine whether it is excess or whether it is excessive; just what amount it takes to make it excessive?

Mr. HAYNE. Well, I suggested putting in there that if it did not deteriorate the value of the grade tendered more than an eighth of a cent, it would be perfectly merchantable, saleable cotton.

Mr. HUMPHREYS of Mississippi. It occurs to me there ought to be some little more definite provision there.

Mr. CALLAWAY. If there was not but one worm in the apple, then you would let it go in?

Mr. HAYNE. In that respect I think I would let it pass.

Mr. HAUGEN. Who is going to determine what grade it is?

Mr. HAYNE. The exchanges are given these standards made up by the Government, and at present any bale of cotton that is sent there for delivery is classified under these standards by paid officials of both exchanges.

Mr. HAUGEN. Then there is no question about that; everybody accepts that conclusion?

Mr. HAYNE. Everybody accepts that. There is no complaint about it. It is easily ascertainable and determinable.

Mr. HAUGEN. To whom would you leave the discretion of valuing the depreciation due to sand and so on?

Mr. HAYNE. The same classer that classes it as a bale of low middling or a bale of middling decides whether there is too much sand or dirt in those bales—whether the sand and dirt in those bales is over or under an eighth of a cent.

Mr. HAUGEN. Do you think, Mr. Hayne, classers, who necessarily and by the very requirements of their position may not be themselves engaged in the cotton business, are in position to determine whether the value of cotton is depreciated a quarter of a cent, or any amount?

Mr. HAYNE. Well, I think that anybody that classes cotton would be able to tell whether there was sand enough in it to make it worth an eighth of a cent less. I think so.

Mr. GLENNY. When you receive cotton and get a certificate for it you do not rehandle it; you ship it out on its certificate, do you not?

Mr. HAYNE. Yes.

Mr. GLENNY. Therefore the grading of the cotton exchange is satisfactory. I just want to bring that out in connection with the work that those classers do in the exchange.

Mr. HAYNE. Oh, yes; we have found their grading absolutely correct, according to the types before them.

Mr. HAUGEN. Out West we call them inspectors. You call them classers. They are satisfied with these classers that are doing the work? There is no difficulty of ascertaining the exact value of the cotton, so there is no need of any Federal inspector to inspect it and class it?

Mr. HAYNE. I think it would be better. I had never thought of that until to-day, when Mr. Callaway suggested it, but I believe that if the Government could, in both exchanges, have a couple of classers and let that be the final classification, I think it is a splendid idea.

Mr. CALLAWAY. Do you think they could make a profit on it at 25 cents a bale?

Mr. HAYNE. I do not know in dollars and cents, but the fact that you have got Uncle Sam saying it is so and so means a good deal.

(Whereupon, at 5.10 o'clock p. m., the committee took a recess until 10.30 o'clock a. m., Thursday, April 23, 1914.)

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COMMITTEE ON AGRICULTURE,  
HOUSE OF REPRESENTATIVES,  
*Washington, D. C., Thursday, April 23, 1914.*

The committee reassembled at 10.30 o'clock a. m., pursuant to the taking of recess.

The CHAIRMAN. When we took a recess yesterday afternoon, Mr. Hayne was addressing the committee, and he desires this morning to conclude his statement. Mr. Hayne, you may proceed in your own way.



**STATEMENT OF MR. FRANK B. HAYNE, OF NEW ORLEANS—**  
Continued.

Mr. HAYNE. I think I had got as far yesterday in my statement as to say that the first thing was the enforced adoption of the Government standards by both exchanges, and that I was opposed to two standards—upland and Gulf. I can see no possible reason why there should be more than one standard. The grade of cotton is the same whether it is Gulf, Texas, or upland. The types are put into a box with a glass cover, on which is marked, "Not to be touched." No classer in the world, if the grade is the same, could tell from a type the bales that were Gulf and the bales that were upland. The mill that buys 100 bales each of middling, strict middling, and good middling, from Savannah or New Orleans, will expect precisely the same class from each port, but, as a matter of course, would expect from New Orleans cotton of better character, staple, and strength. Grade is simply a question of color and leaf. There is no difference whatsoever between a bale of middling upland or Gulf, as far as the class of that bale is concerned. If you can handle the cotton, you can prove the staple of it. The Gulf cotton will have more strength and staple, probably a longer staple; and it is a heavier bodied cotton. But the grade type is precisely the same. I think that any spot-cotton buyer in the South will agree with me as to that statement. And if that is the case, I think it would only create confusion if we were to have a standard for upland as well as a standard for Gulf cotton. There should be one Government set of types.

The CHAIRMAN. Is it your opinion, Mr. Hayne, that the present Government standards represent the type of the bulk of the cotton of this country?

Mr. HAYNE. They represent the type of all the cotton of this country. It is not the type of any particular section—that is the grade; that is the standard.

The CHAIRMAN. And it is representative of all the cotton?

Mr. HAYNE. Of all.

The CHAIRMAN. Mr. Hayne, I am afraid you did not quite catch the meaning of my question. What I was inquiring about is this: Whether or not the present Government standard is representative of the different characters of cotton in all the different localities of the country.

Mr. HAYNE. Well, it is made up of the different ones. Well, I have understood that it was. But that is something that I can not answer by a positive statement. I have understood that it was composed some of upland cotton and some of Gulf cotton; but even if it was not, I do not care whether the type is made up all of upland or of Gulf, there should only be one standard, not two.

The CHAIRMAN. Have you ever given any consideration to the proposition of our adoption of the Liverpool or universal standard?

Mr. HAYNE. Yes; but I do not see why we should give up everything to England. I do not see why this country is not big enough to say that we grow the cotton and that we sell the cotton; and I do not see why we can not say to England, "Adopt our standard." Why should we adopt theirs? They only buy a proportion of what we grow.

The CHAIRMAN. Mr. Hayne, is it your opinion, in reading this House bill, that section 3 of the bill, which deals with transmission of cablegrams to foreign countries on these contracts for future delivery, would force the Liverpool and other foreign exchanges to adopt our standards? I am speaking of the last part of section 3, beginning on line 13 of page 2, reading, "Any contract for sale of any cotton for future delivery," and so on.

Mr. HAYNE (after a pause). I think it would adopt them.

The CHAIRMAN. Do you think it would force the foreign exchanges to adopt our standards?

Mr. HAYNE. Yes; but that is just a matter of opinion on my part.

The CHAIRMAN. Well, of course, your opinion is worth a good deal to the committee, because you have been in the trade so long. All right, you may proceed.

Mr. HAYNE. Now, the next important change that I think should be made in the present rules of the two exchanges is that the New York and New Orleans exchanges should be forced to base their contracts on the real commercial difference between grades. The New York Exchange proposes to have monthly revisions; but it is my opinion that that would simply give an opportunity for more effective manipulation of the market, if there were monthly revisions instead of the three revisions that the market now has.

The New Orleans exchange claims that its contract is based on commercial differences; but that is not the case. New Orleans differences between grades are based on the differences existing in the New Orleans spot market, and they do not take into consideration in any way whatsoever the differences that exist between those grades in other markets. In my opinion there is only one way to arrive at the real commercial differences, and that is what is proposed in both the Smith and the Lever bills, that there should be five or seven or more large markets that sell a quantity of spot cotton; those different markets selected, as a matter of course, must base their quotations, must have their differences on these Government standards. Then, that these five or seven markets should carefully quote these differences and it should be obligatory on the New York and the New Orleans cotton exchanges to fix their differences according to the average differences between grades of these various markets, and that whenever this average difference is changed between these various markets the New York and the New Orleans markets must also change their differences accordingly, never mind how often those changes occur.

The CHAIRMAN. Do you think that proposition is covered in these bills, Mr. Hayne?

Mr. HAYNE. I do not, for this reason: In Senator Smith's bill there is a clause reading that that difference should be established by bona fide sales of spot cotton of the same grades, respectively, made in the course of actual trade, upon the sixth business day prior to the settlement of the contract, in the market where the future transaction involved takes place and is consummated.

In other words, as I understand that, it says, "In the event that there be no bona fide spot market in which spot sales are made from day to day, at or in the place in which such future transaction takes place, then, and in that case, the said average differences in value in

the spot markets at five places designated by the Secretary of Agriculture."

But these five or seven other markets would not be brought into use if the market in which the contract originated, either New Orleans or New York, made what they claimed to be a bona fide spot transaction the sixth day prior to the tender of that cotton. In other words, it still leaves it to New York and New Orleans to fix those differences. I think that that is a mistake; that it should be left entirely to these five or seven markets, and then it should be mandatory on the two exchanges to fix their differences accordingly.

The CHAIRMAN. Well, assuming that we should cut out the objectionable language to which you call attention, appearing in both bills, and leave this language in, with the premises to it, what would be your opinion of that—

Said differences above or below the contract price shall be determined by taking the average actual commercial differences in value in the spot market of eight places designated for the purpose from time to time by the Secretary of Agriculture.

And so on?

Mr. HAYNE. That would absolutely meet the conditions.

The CHAIRMAN. That would meet the conditions, would it?

Mr. HAYNE. Yes, sir. Now, the third very important change refers only to the New York market. The New Orleans market has adopted this system for many years that each bale delivered on contracts should be designated by a tag number, which would enable the receiver of the cotton to use any bale or any number of bales on a contract, and, if he wished, to retender the balance without the necessity of having this remainder recertificated. This system has been in vogue in New Orleans for a number of years, and it has proved satisfactory in every way, and is one of the principal reasons why the New York contract is always selling so far below the value of spot cotton in the South; and as a rule sells so much lower than the New Orleans contract.

Mr. Marsh stated yesterday that the system had been changed to some extent in New York, but I know that in 1903 and in 1910, in receiving cotton in New York, you simply got a certificate showing that there were 10 grades, 10 bales each of 10 different grades, making 100 bales. But you could not tell which 10 bales was which. In order to find out whether you might use 4 of those 10-bale lots, if you had an order for those 4 grades you would not know how to make use of them, to find those 40 bales which you could use, the entire 100 bales had to be turned out; you would have to reclass the cotton and take out the 40 bales you could use, and you would have to recertificate the remaining 60 bales at a very heavy expense, possibly 60 or 65 cents a bale. I consider that that idea is preposterous. It is unfair in every way. It is as unfair as if I bought 10 kegs of nails, running from tack hammer to tenpenny nails, and if I wanted to use a special cask I found that they had not been marked or numbered at all. I would have to turn out the whole 10 kegs, break open the head of each one, and probably the one I wanted would be the last one I broke open; and I would also then have to pay the restorage and for the labor of putting them back.

The CHAIRMAN. And that amounts to about 65 cents a bale on the cotton you say?

Mr. HAYNE. And to recertificate it, yes; I think it would.

The CHAIRMAN. And that, of course, would be charged back to the man who is the producer of the cotton?

Mr. HAYNE. Well, I do not know about that. I know the man who pays it is the man who receives the cotton.

Mr. TAYLOR. How could it possibly be charged back on the producer? The contract is already made and executed. It could not possibly be charged back in the producer.

Mr. HAYNE. The contract is already made and executed. I know it comes back to the receiver of the cotton.

Mr. SLOAN. As far as that cost being brought back to the producer is concerned, it could not go back to the producer directly in that particular case, but the chairman's proposition, I think, is that knowing all of those charges are going to come along, they would be distributed in such a way that in the long run of cases they would be brought back to the producer.

Mr. HAYNE. Yes; that is it. I would make the contract knowing those conditions, and I would make allowance for that charge.

Mr. SLOAN. And you would bid on that contract less than you ordinarily would, the seller would get less, and that the producer would finally bear the charge?

Mr. HAYNE. Yes, sir.

Mr. HUMPHREYS of Mississippi. Is 65 cents the total expense of this transaction? If there were 10 bales that you wanted in order to turn out the 100 and segregate the 10 bales, it would possibly necessitate the resampling of 75 bales, and then the recertification of the 90 bales would all cost about \$65, do you think?

Mr. HAYNE. No; 65 cents a bale. If you take 1 bale out of a 100-bale contract you will destroy the certification of the remaining 99 bales.

Mr. HUMPHREYS of Mississippi. And the whole transaction would cost for the 100 bales probably about \$65; would it?

Mr. HAYNE. I think that is about right.

Mr. HAUGEN. I think \$58.50 would be about right.

Mr. HUMPHREYS of Mississippi. May I ask you another question? Is the purpose of that particular rule (if not to prevent) at least to discourage men from taking cotton on the contracts on the exchange?

Mr. HAYNE. I think the idea of that rule undoubtedly is to make it as obnoxious as possible for anyone to go to New York and receive the cotton on his contract.

Mr. HUMPHREYS of Mississippi. Then, that is written in the contract in the interest of the seller of the cotton?

Mr. HAYNE. Unquestionably.

Mr. HUMPHREYS of Mississippi. And the general effect necessarily is to depress the price of cotton?

Mr. HAYNE. Yes; and New Orleans has adopted the other system. In New Orleans if I get these 10 bales each of 10 different grades in a 100-bale contract they will not do as they do in New York—simply make it for 10 bales each of good middling and so on down to good ordinary—but on the back of this certificate they would have good middling, strict middling, and so on down the list, and they would give you the tag numbers of the bales that are good middling, the tag numbers of the bales that are low-good middling, the tag numbers of the bales that are good ordinary, etc.

Mr. TAYLOR. Will you answer this question: Now, you say that you have this kind of contract in New Orleans. Why is it, therefore, that people trade in New York? Why do they not stay in New Orleans and trade down there? What do they go up to New York for if the contract is there so inequitable?

Mr. HAYNE. One reason is that New York has more people and more money than New Orleans.

Mr. TAYLOR. And that is the only reason?

Mr. HAYNE. Well, you know that they do trade; but I think that that is what is bringing us all to Washington now, that the trading is being limited to those who are more noncotton men or speculators than to legitimate cotton men or mills.

The CHAIRMAN. Mr. Hayne, carrying out the line of questions by Mr. Humphreys, I want to ask you whether it is true or not that every time a purchaser takes up a bale of cotton in New York which has been delivered to him, or for which he has demanded delivery, that action has a tendency to raise or lower the price of spot cotton in the South.

Mr. HAYNE. Whenever any cotton is—

The CHAIRMAN (interposing). Taken up in New York; when the actual cotton is taken up on the contract.

Mr. HAYNE. I think it undoubtedly has that effect.

In regard to that certification—I mean the certification of each bale or the identification of each bale—nearly every large market in the South has adopted that system, and it is absurd to say that New York can not do it. They can do it.

Mr. TAYLOR. Why do they not do it? What is the advantage to them of not doing it?

Mr. HAYNE. Well, I think they are going to do it. And I am a member, and an old member, now of the New York Cotton Exchange. But, gentlemen, if they will not do it, I say they should be made to do it. That is what we are here for. There are some things that the New Orleans Cotton Exchange should be made to do, and there are some things that the New York Cotton Exchange should be made to do:

Mr. TAYLOR. What is the disadvantage of not doing that?

Mr. HAYNE. The disadvantage of their not doing it?

Mr. TAYLOR. Yes; what disadvantage is it to them? Why should they not do it, in other words?

Mr. HAYNE. Well, as I say, I think that the reason it is not done is that it is an obstacle flung in the way of anybody receiving cotton in that market, and naturally they do not want cotton received in that market.

Mr. SLOAN. You figure that it is encouraging the gambling feature, instead of the real investment feature. Is that the raw English of it?

Mr. HAYNE. That is about it.

Mr. HUMPHREYS of Mississippi. Well, there is no cotton produced in New York, or in that neighborhood, or right around there, and there is no cotton manufactured there.

Mr. HAYNE. There is cotton manufactured in the neighborhood of New York.

Mr. HUMPHREYS of Mississippi. What is that?

Mr. HAYNE. There is cotton manufactured in the neighborhood.

Mr. HUMPHREYS of Mississippi. There is cotton manufactured in the neighborhood, but there is none manufactured in New York City, and very little in the State of New York. Is not that right?

Mr. HAYNE. There is a good deal manufactured in the upper part of the State; Syracuse and around there there is a good deal manufactured.

Mr. HARRISON. How much actual cotton is delivered on the future contracts in New York; I mean how much a year, approximately?

Mr. HAYNE. Well, it depends on the season. In 1910 there was probably in the neighborhood of 800,000 bales.

The CHAIRMAN. How much?

Mr. HAYNE. Probably 800,000 bales.

The CHAIRMAN. Delivered on contracts?

Mr. HAYNE. Yes; in New York, in 1910.

The CHAIRMAN. Well, what would be the natural delivery in a normal year? That was an abnormal year.

Mr. HAYNE. I should say 250,000 bales.

Mr. HARRISON. Well, how many bales are sold on future contracts in New York in a year on an average, approximately?

Mr. HAYNE. Well, I think that is rather guesswork. Twenty-five millions or thirty millions, I should imagine. I might be wrong in the figures.

The CHAIRMAN. All right, Mr. Hayne; you may proceed.

Mr. HAYNE. The next important feature, which applies to both markets, New Orleans and New York, is that no pro forma tender can be made, but actual delivery of classified cotton shall be made on the date named for delivery in the contract.

Under the present system there have been instances where the receiver of cotton which was delivered to him in May did not obtain the classification of the same until August. The system is that the cotton exchange has been enabled to certificate this cotton. A pro forma invoice is tendered to the receiver, the buyer, and he has to pay on some average price supposed to be about what that 100 bales would be worth. The buyer actually pays for this 100 bales, or 10,000 bales, or 50,000 bales, perhaps, and he does not know what he is paying for. He does not know whether it is middling fair or whether it is good ordinary. I can not see how that can be defended. I consider that when I signify my intention of receiving the cotton that has been sold to me I should not pay for same until the deliverer gives me the certificate showing each and every grade that he is tendering me. If I do not know it for a month or more—even if I do not know it for two days afterwards—I, as the receiver, am forced to restore this cotton at a heavy expense. I do not know where to offer it. I have paid for something and I do not know what it is. I do not know where to offer it.

I am long on July contracts to-day. I may have bought them five months ago. The man that sold them to me obligated himself to give me 50,000 pounds of basis middling cotton. Now, he has had all that time to prepare himself to meet his obligations. If he waits until the last moment, should I, who am willing to carry out my obligations and ready to carry it out—should I be the sufferer on account of his negligence or dilatoriness? That provision regarding the pro forma tender is in these bills, and I consider it a very good one.

Mr. HUMPHREYS of Mississippi. Now, let me see if I get that straight. When they make this pro forma delivery they then take a month, or some such time, before they deliver these samples with the tags wrapped up in them as Mr. Marsh told us about yesterday—or does that go with the pro forma delivery?

Mr. HAYNE. Well, as I told you, I took up a good deal of cotton in 1910 in New York markets, but apparently the United States Government had a sort of prejudice against my taking up any more. I have not, therefore, taken up any more cotton in New York.

Mr. HAWLEY. Were you involved in that suit that Mr. Callaway spoke of yesterday?

The CHAIRMAN. The Patten case.

Mr. HAYNE. I was involved in it; yes, sir.

Mr. HAWLEY. Who filed the information against you?

Mr. HAYNE. I do not know.

Mr. HAWLEY. But somebody must have filed the information with the Government?

Mr. HAYNE. It would be only suspicion on my part if I were to say. I do not know.

Mr. HAWLEY. Did it not come out in the trial where the Government got its information?

Mr. HAYNE. It did not.

Mr. SLOAN. Were you proceeded against?

Mr. HAYNE. Oh, yes.

Mr. SLOAN. Well, did your attorney not have an opportunity to bring out where the information came from?

Mr. HAYNE. That was a grand jury matter, and that can only be surmised.

Mr. TAYLOR. Did you have a trial in open court?

Mr. SLOAN. It did not go beyond the grand jury?

Mr. HAYNE. No.

Mr. TAYLOR. The grand jury did not indict you?

Mr. HAYNE. It did indict me.

Mr. HAWLEY. You paid a fine, did you?

Mr. HAYNE. I paid a fine.

Mr. TAYLOR. Then you plead guilty, did you?

Mr. HAYNE. No, sir. I do not think this has anything to do with the contract, sir, at all; but as I have been questioned on it. I wish to say most distinctly that I did not plead guilty, and that I would rather have gone to jail or gone to h—l than to have plead guilty.

Mr. TAYLOR. I know; but how was the fine imposed on you then?

Mr. HAYNE. How was the fine imposed? Mr. Patten of Chicago did plead guilty. Mr. Patten of Chicago plead guilty of having knowingly and wilfully violated one of the laws of his country.

Mr. TAYLOR. That is, the laws against creating a monopoly?

Mr. HAYNE. Yes. He peaded guilty. The balance of us did plead nolo contendri, which means—there is a very great distinction there, sir.

Mr. TAYLOR. I know that.

Mr. HAYNE. It means that we acknowledged in no shape or form any guilt whatsoever; that we not only did not knowingly violate any law of this country, but we had three of the finest lawyers in the Southern States, at any rate, who, before we went into this operation, told us that what we were doing would not be against the law.

Mr. HAWLEY. Well, Mr. Chairman, I want to say——

Mr. HAYNE (interposing). Please do not stop me; I just want to say one thing: Mr. Patten did plead guilty, which was one of the reasons why we plead nolo contendere. We came to the conclusion, which Mexico will come to in a very short time, that there is no use tackling Uncle Sam.

Mr. HAWLEY. Mr. Chairman, my question was not for the purpose of attributing or intimating any guilt on the part of any of those parties——

Mr. TAYLOR (interposing). Oh, no; nor mine either.

Mr. HAWLEY (continuing). But if it is a fact that if you buy in a certain place certain goods, and when you demand the actual delivery of those goods you are proceeded against as if you were violating the law it seems to me that this committee ought to know all about that, and who filed the complaint or the statement with the Government that you have, in demanding or asking that you be given the goods which you have bought, violated the law.

Mr. HAYNE. I thoroughly agree with you on that, and I hope sincerely that the Government will find out, and I think when the Government finds out the men who did it will be held up to the execration of every honest man in the world.

Mr. HAWLEY. It seems to me it has a great deal to do with this future contract business.

The CHAIRMAN. Undoubtedly.

Mr. TAYLOR. What were you charged with, creating a monopoly by buying all this cotton; was that the charge?

Mr. HAYNE. There are a good many persons in this room right now who were charged at the same time with myself.

Mr. TAYLOR. How many were there altogether?

Mr. HAYNE. Well, there were about forty-odd southern spinners. Two of them are in the room at present; two of them have testified here already.

The CHAIRMAN. The gist of the charge against you, Mr. Patten——

Mr. HAYNE (interposing). Please do not call me that. [Laughter.]

The CHAIRMAN. The gist of the charge against you, Mr. Hayne, was that you had asked for something that you had bought; is that it?

Mr. HAYNE. That is what I thought it was.

Mr. TAYLOR. What was that?

Mr. HUMPHREYS of Mississippi. He had demanded delivery of something that he had bought.

Mr. HARRISON. Was anybody at that time proceeded against who had beared the market?

Mr. HAYNE. No.

The CHAIRMAN. All right; you may proceed.

Mr. HAYNE. I was about through, Mr. Chairman; but I have a suggestion here which I do not know that I would have offered before this question had come up; but it might not be a bad thing to put in your bill.

It is that it should be considered a violation of the Sherman law for any combination of persons or firms or corporations to agree to receive cotton tendered them on contract on any exchange, with the understanding that the cotton so received should be sold only at a price fixed by said individuals or firms or corporations. But



this would not prevent the said individuals or firms or corporations agreeing together to receive cotton against their outstanding contract, if they sell cotton so received in competition with each other. It should be considered a violation of the Sherman law for any combination of persons, firms, or corporations to combine together to buy cotton to deliver on contracts for the purpose of depressing the cotton market.

I do not know that that could be put in the bill; but I do say this, that there is no question of doubt but that the outcome of the suit that you speak of has cost the South, not \$5,000,000 or \$10,000,000, but hundreds of millions of dollars. There is no doubt in my mind but that the feeling has been, among bear manipulators, that practically the outcome of that suit meant that the bears could combine and depress prices, the idea being, according to ex-Attorney General Wickersham, that by depressing the price of spot cotton, they might be giving the American consumer of cotton goods, who uses only one-third of the American crop, a little cheaper goods. That is their idea. I think they are wrong. And their idea was that the man that bought cotton could not combine to uphold prices, to get the South \$5 or \$10 a bale more for its 15,000,000 bales of cotton; that that was against the law. I consider that the result of that case has been an effective weapon in the hands of those who are against the product of the South—cotton.

Mr. TAYLOR. Do you think it is a good thing for a coterie of men to be allowed to buy up the cotton, and then force up the price of the cotton? How is that helping the farmer?

Mr. HAYNE. Very materially.

Mr. TAYLOR. He has sold all of his cotton; he has no control of the cotton; he has sold it.

Mr. HAYNE. But not entirely. Cotton has been at 14 or 15 cents within the last few years, and the producers have gotten some of the benefit of that. One reason why the South is in as prosperous condition as it is to-day is that the South has got the benefit of the increased prices of the cotton.

Mr. TAYLOR. Do you believe that it would be a good thing to allow a coterie of men to buy as much cotton as they can with a view to forcing up the price of cotton?

Mr. HAYNE. No. What I suggested is the reverse of that—that they take up this cotton and then put an arbitrary price on it—

Mr. TAYLOR (interposing). I beg your pardon, but how do you mean it is the reverse of that?

Mr. HAYNE. I mean the buyers who are buying up this cotton; if they put an arbitrary price on it. In other words, the decision of the Supreme Court was that it was against the law to withdraw or withhold cotton from the market; but, on the other hand, there is no corner—a combination of bulls can not make a corner. All corners are made by the men or combination of men who sell more than they have got and more than they can get in order to try to depress the prices. They are the ones that make a corner. I can not knock any man down and say, "Sell me 5,000 bales of cotton"; but if he offers five or ten or fifteen thousand bales, have I any right to think that he is not going to deliver it to me? And then suppose I carry out my obligation and take it up; but four or five men find themselves in a position—right here, now, here is May cotton in New York,

delivery day next Tuesday. Suppose we found out—we have not bought our cotton together; we do not know how many bales the other man has; we do not know within a cent a pound for what he bought his cotton. But we found out that there are five men in this room, for instance, that owned 40,000 bales apiece of May cotton. How are we going to liquidate? Why, we force cotton down a cent a pound if we start out in competition with each other. What can we do then? We simply say to each other, "You are long of cotton." The other man says, "Yes; I am long on cotton." "Well, I am going to take up 30,000 bales," you say. The other man says he is going to take up 30,000 bales. We do it. We are able to liquidate a part of our contract and we are able to liquidate the balance by selling out the spots.

Now, this is my opinion, of course. But it would be, in my opinion, against the Sherman law if we bunched spot cotton, put an arbitrary price on it, and made the mills pay an extortionate and exorbitant price for that spot cotton. But if when we each take this 30,000 bales—we absolutely have to do it in self-protection—and then we sell it in competition with each other, the spinner gets the advantage of it, and the only man that is hurt is the bear speculator, who has brought the condition on himself by selling what he did not have in trying to depress the price of an article that means so much to us all.

MR. REILLY. Mr. Hayne, you are in favor of the cotton exchange, are you not?

MR. HAYNE. Absolutely. I am in favor of exchanges if they are properly run.

MR. REILLY. Are not these people always selling what they have not got?

MR. HAYNE. Well, no, sir; not always.

MR. REILLY. Could they exist without selling what they have not got and do not expect to get or deliver?

MR. HAYNE. They are not always selling what they have not got. A great many of futures are sold absolutely as a hedge against the purchase of spot. A man has his spot cotton and he sells the futures against them as a hedge. If I make a sale to Mr. Parker or Mr. Callaway for future shipment, I buy the future. I have not got that spot cotton, but I buy the futures as a hedge against that spot cotton that I am to buy.

MR. REILLY. But there are always bought and sold on the exchanges many millions of bales more than there is in existence.

MR. HAYNE. Yes. There are people that speculate, and in my opinion that helps the price of cotton.

MR. TAYLOR. It does what?

MR. HAYNE. It helps the commodity. I believe that if it is looked up you will find that every commodity that has a future market is in a better condition than any commodity in which the producer and the consumer have simply to face each other without any such market.

MR. HAWLEY. Do you mean that the market would be likely to be more stable?

MR. HAYNE. I think the market is undoubtedly apt to be more stable, and that there would not be the wide fluctuations. I think

there would be wider fluctuations in the price of cotton, very much wider fluctuations, if there were no future contracts.

Mr. HUMPHREYS of Mississippi. Now, Mr. Hayne, you think the exchanges ought to exist under proper regulation, and that they are a good thing. You are not complaining especially about a man selling who does not actually possess the cotton, but you insist, as I understand it, that the contract that he makes when he sells it shall be a fair contract, and not be written altogether in the interest of the man who is selling it, as against that of the man who is buying it; is that correct?

Mr. HAYNE. That is exactly it. I consider that really, up to this time, the contract on the exchanges has been a seller's contract, and that it ought to have printed across it "caveat emptor."

Mr. HARRISON. What is the primary object of exchanges?

Mr. HAYNE. To facilitate large transactions in the commodity which they buy and sell on that exchange.

Mr. HARRISON. Did they not just deal in spot cotton when they were originally organized?

Mr. HAYNE. I do not think so; no.

Mr. MARSH. The purpose of organizing the exchanges was to afford a meeting place, and also uniform rules for contract for future delivery.

Mr. HARRISON. Now, in that connection, may I ask you, Mr. Marsh, if it is not a fact that the New York Cotton Exchange was organized in 1867?

Mr. MARSH. I beg your pardon?

Mr. HARRISON. That it was organized in 1867.

Mr. MARSH. No, sir; it was organized in 1871.

Mr. HARRISON. In 1871?

Mr. MARSH. Yes.

Mr. MAGUIRE. Then exchanges were organized primarily for future delivery, were they?

Mr. MARSH. They were organized primarily for future delivery. The immediate occasion for the organization of the New York Stock Exchange was the growing practice of persons in New York, in the cotton trade, to make contracts with spinners calling for the delivery of cotton where the cotton was not immediately available for delivery; where it could not be delivered for some time. That practice began shortly after the Civil War. It began, probably, I should say, in 1867, and it proved so convenient to spinners to make the forward contracts for that cotton that the sales of cotton for future delivery grew very rapidly. Then there were found to be continual disputes. There was a lack of uniformity—

Mr. JACOWAY (interposing). Now, Mr. Marsh, I will ask you if the spinners at that time did not get the actual spot cotton?

Mr. MARSH. The spinner actually got the spot cotton that he bought, but the contracts were made months in advance, and the seller of the contracts at the moment he made them very frequently did not have the cotton which he contracted to deliver later.

Mr. HARRISON. Mr. Marsh, are you not mistaken about that, and is it not a fact that future trading in cotton was not established until one or two years after the New York Cotton Exchange was organized, and that the plan was first originated by one Mr. Ray, of Liverpool?

Mr. MARSH. The New York Cotton Exchange, I am perfectly certain, was established at least three years after the practice of trading in contract for future delivery had become common in New York. It had before that become common in Liverpool; it had in Liverpool during the Civil War become very common, because in Liverpool during the Civil War the uncertainty of the supply of cotton for English spinners made the trading in cotton exceedingly eager and active, and the cotton merchants in Liverpool kept their eyes open for every ship that was on its way from Palm Bay, around the Cape of Good Hope, and every blockade runner that was likely to put out of the southern ports with any kind of cotton that might possibly get to Liverpool was watched, and as soon as it was ascertained that a certain ship was on its way to Liverpool trading in the cotton on that ship was begun. Frequently that ship did not go to Liverpool, or could not go to Liverpool for several months; and it was always in Liverpool a question as to just when she would get there.

Consequently, in Liverpool, we still have the curious practice of making delivery cover two months instead of one month, a practice which arose from the uncertainty as to just when the ship would arrive there.

The CHAIRMAN. Does that answer your question, Mr. Jacoway?

Mr. JACOWAY. Yes.

The CHAIRMAN. Is there anything further you desire to say, Mr. Hayne?

Mr. HAYNE. Nothing, except that I would like to summarize briefly just what I have tried to say and what I think.

The first thing is that the Government standard should be adopted, not only by New Orleans and New York exchanges, but certainly by these five or seven markets that would fix the differences.

Also that only one standard should be used, whether it is Gulf standard or upland standard.

I also think that fixed differences should absolutely be done away with, and nothing but real, actual, commercial differences should exist.

I think that every bale of cotton tendered should be identified, so that the buyer could take 1 bale out of any 100 bales tendered in, and not have to recertificate the remaining 99 bales, but could sell that 1 bale if he wants to.

Also I think that no pro forma invoices should be allowed; that when a man delivers cotton he must state to the receiver—he must produce a certificate of the exchange showing the grade of each and every bale which he delivered.

Mr. HOLLIS. And identify the bale?

Mr. HAYNE. Yes; and identify the bale.

Gentlemen, really pretty much everything that I think would make a good contract is embodied in the Smith bill and the Lever bill, and I think, with only very slight modification and probably a few additions, that bill could be made to be satisfactory to everybody. And I can only say this, gentlemen, that I sincerely hope that you will do something at this session, and not leave the cotton trade open for another year wondering what the legislation will be.

Mr. JACOWAY. What do you think should be the limitation of the length of staple?

Mr. HAYNE. I think myself that cotton below seven-eighths inch should not be tendered.

Mr. HUMPHREYS of Mississippi. There is no occasion for a maximum limitation, is there?

Mr. HAYNE. Well, there was a rule, and still is, I believe, on both exchanges, that long-staple cotton can be delivered on contract, but it shall not receive a premium of more than a quarter of a cent.

The CHAIRMAN. There is no objection made to the maximum, I believe?

Mr. GLENNY. Mr. Hayne, I want to correct you on one thing, if you will permit me, and say that when staple cotton is delivered on contract on the exchange, 80 per cent must be staple cotton or no allowance will be made for it.

Mr. HAYNE. Eighty per cent must be staple cotton or no allowance will be made.

Mr. HAUGEN. Well, why should the limitation extend to 9 or 10 grades? Why not restrict it to two or three grades, the same as is done with respect to the grain exchanges?

Mr. HAYNE. Well, I think grain and cotton are very different.

Mr. HAUGEN. That may be, but I want to get that in the record in connection with what you have stated.

Mr. HAYNE. My reason why it should not be limited to the nine grades is this—

Mr. HAUGEN (interposing). Well, I say, why not limit it to two or three grades?

Mr. HAYNE. Well, at present there are nine grades, and, I say, even for those nine grades they are made up of white cotton. Now, even in an ordinary year—I mean where the picking is normal in the beginning of the season—the deliverer of cotton might be able to match in whiteness those nine grades; but in nearly every year at the end of the season, say after January, there is a certain amount of rain that has come on the cotton that has been gathered and a little poorer cotton has gone in—a little duller cotton has gone in with the brighter cotton—and if you simply limit it to that I think you would find it hard to get anybody to sell the contract.

Mr. HAUGEN. Well, that is to the advantage of the seller. The spinner has a certain contract for future delivery. It is necessary for him to have a certain quality of cotton, and he enters into a contract with you for 100 bales of that cotton. Now, he buys 100 bales and gets only two or three bales of the kind that is needed in his business. Why is he not entitled to the grade of cotton that he contracted for, and which he has to have in order to produce the cloth?

Mr. HAYNE. Well, the exchanges do not pretend to sell the manufacturers cotton for their wants. They do not pretend to do so. The contract that you buy and that you sell on an exchange is for 50,000 pounds of basis middling. When Mr. Hawley buys a contract on the exchange he knows that he is not going to get 100 bales of strict middling or middling for his mill, but he is hedging himself. The man who sells to him on the exchange says, "I am only going to give you 50,000 pounds of basis middling." Now, if Mr. Hawley wants his 100 bales of strict middling he can go to the cotton merchant and the cotton merchant will sell him 100 bales that will be

suitable for his mill, and he, the cotton merchant, will hedge himself by buying this 50,000 pounds or 100 bales of basis middling.

Mr. TAYLOR. He buys the contract?

Mr. HAYNE. Yes.

Mr. TAYLOR. And the merchant buys the cotton and takes the contract from the spinner?

Mr. HAYNE. Yes.

Mr. HAUGEN. The contract is of no value to the spinner except as a matter of insurance. And if no cotton is actually delivered, it simply reduces itself to an insurance proposition, and the expense is 25 points, and \$2.50 and 15 cents, which, I believe, amounts to \$13.90 a bale.

Mr. HAYNE. It is practically an insurance proposition; yes. But now, if Mr. Hawley should get an order from the United States Government for 1,000,000 yards of duck deliverable next January, how can he, unless there is a future market, accept that order without speculating?

Mr. TAYLOR. In other words, he must know the price which he will have to pay for his cotton?

Mr. HAYNE. In other words, the future market is an intermediary which prevents Mr. Hawley from having to speculate. Mr. Hawley's course would be this: He is up North and does not know the conditions in the South. I am in the South in the different markets. He says, "What will you sell me 2,000 bales of cotton for, deliverable in October, November, and December?" naming the style of cotton that he wants in order to make those goods that he has sold to the United States Government. Now, if there were no future markets, I could not sell him that cotton, and he could not accept that contract from the Government.

Mr. HAWLEY. At an agreed price, now, you mean?

Mr. HAYNE. At an agreed price now. No; you would have to wait; cotton may be 2 cents a pound higher in October than it is now.

Mr. HAWLEY. In other words, if there was no future market, you maintain that you would sell me the cotton at a price based upon whatever price you might have to pay for it?

Mr. HAYNE. Yes; at whatever price I took the cotton.

Mr. TAYLOR. And Mr. Hawley could not make his contract with the Government for the duck?

Mr. HAYNE. No; he could not make his contract with the Government. It needs the future market, which is of more help to the manufacturer than anybody else to enable him to do that.

Mr. HAUGEN. Because it allows him to sell his goods ahead. But we should dismiss the idea of the spinner purchasing his cotton for his stock on the exchange for future delivery. It is simply a matter of insurance; it has nothing to do with the cotton that he needs.

Mr. HAYNE. Yes. The manufacturer can not expect to use 2,000 bales of strict middling cotton by buying 2,000 bales of basis middling through an exchange for the purpose of supplying the wants of his mill.

Mr. MOSS. Does not your position amount to this: That you say you can not eliminate speculation and that you want to throw upon the speculative market the speculation instead of the actual market carrying that? Is that what you mean to say?

Mr. HAYNE. I did not quite understand that?

Mr. MOSS. Did I not understand your position to be that if Mr. Hawley wanted to take that future contract and there were no futures he would have to carry it as an individual?

Mr. HAYNE. Yes.

Mr. MOSS. But there being a future market he sells it, and then he lets some speculator carry it?

Mr. HAYNE. No; it is not a speculator. Now, I would not be a speculator if I sold Mr. Hawley his 2,000 bales and bought the 2,000 bales of contract on the exchange. Perhaps you will say that the man who sells me that 2,000 bales is a speculator.

Mr. MOSS. I mean to say that the uncertainty remains just the same, and whatever risk there is shifted from Mr. Hawley to somebody who is on the future market; is not that true?

Mr. HAYNE. But it will not necessarily be speculation.

Mr. TAYLOR. That is right.

Mr. MOSS. Now, to make it plain, you speak about insurance. Now, there can not be an insurance unless there is a risk, can there?

Mr. HAYNE. Yes; but here would be the character of that transaction: Mr. Hawley is about to sell the Government this large contract for cloth without speculation, because he buys the cotton from me, whom he considers responsible, and that I will furnish him with the kind of cotton that he wants to build up contracts with. I sell that to Mr. Hawley, and I do not speculate, because I buy it from the exchange. Now, you go back, of course, and you say that the man who sells the cotton to me on the exchange speculates. But that is not necessarily true. That man may be a planter who is willing to accept that price and who sells against his crop. That is not necessarily a speculation.

Mr. TAYLOR. It is a business transaction.

Mr. HAYNE. It is a fairly legitimate business transaction, and like all legitimate business transactions, as a matter of course a certain amount of speculation is bound to creep in.

Mr. TAYLOR. And you try to eliminate as much of that as you can, do you not?

Mr. HAYNE. Yes; you can not block it out entirely. There has been speculation ever since the days of Adam and Eve.

Mr. TAYLOR. Mr. Hawley could not make his contract with the Government for that just now unless he knew what the cotton to make it with was going to cost him.

Mr. HAYNE. He could not.

Mr. HAWLEY. I understand that without the future market, if a manufacturer wanted to sell a certain quantity of goods in advance, in order to quote a price for cotton goods to be delivered in January, say, and in order to be sure that he would be able to get the necessary raw cotton he would have to keep on hand before he began his manufacturing operation the whole amount of raw cotton necessary to go into those goods?

Mr. HAYNE. He would have to buy it from me.

Mr. HAWLEY. I mean, suppose there was no future market?

Mr. HAYNE. Oh, yes; certainly.

Mr. HAWLEY. He would have to buy it and have it on hand and know what the cost of insurance, and storage, etc., would be?

Mr. HAYNE. Yes; in order to be safe and nonspeculative you would have to calculate in your price to the Government for the cost of storage and the cost of interest and the cost of insurance for the six months before you are going to deliver.

Mr. HAWLEY. But with a future market I could make a price on future deliveries of the goods if I was able to buy cotton to be delivered at various periods subsequent in time.

Mr. HAYNE. Any time you want it.

Mr. HAWLEY. Yes.

Mr. PATTEN. The man who makes a contract for delivery of a certain kind of goods can deliver them, even though he does not have a future market, if he is willing to do like they do in other businesses and stand his loss.

Mr. HAYNE. Oh, certainly; he can deliver it and his stockholders can be wiped out.

Mr. PATTEN. That makes the future contract an insurance against his loss, does it not?

Mr. HAYNE. That is the way I consider it.

Mr. HAUGEN. That is true as to the cotton grower also. The cotton grower will sell his cotton at the time he plants it and grow it for future delivery?

Mr. HAYNE. Yes.

Mr. REILLY. Did not the spinners get along at one time without having a future market?

Mr. HAYNE. Well, they got on, but I do not think that the spinners were prosperous before there was a future market. It was then, of course, a very much smaller business. But they did not get along as well. I will guarantee that there were more failures among mills before there was a future market than there have been since.

Mr. REILLY. Who has profited the most by this future buying? Has the cotton planter profited by it?

Mr. HAYNE. Well, it is not a question of parties. I think the cotton planter on the whole has benefited, and I think if you gentlemen regulate these contracts he most certainly will in the future be far better off than he would be if you decided that exchanges should not exist.

Mr. REILLY. Then, in your own mind, you have some doubt as to whether future buying has been any benefit to the man who grows the cotton in the past?

Mr. HAYNE. No; I have not any doubt in my mind as to that. I think in the long run, take it from 1871, when the exchange started, to the present time, the cotton planter has got a very much better price for his cotton, in spite of a good many things that we do not have right on the exchanges; I think that during that period the planter has received a better price for his cotton crops than he would have if there had been no cotton exchanges.

Mr. REILLY. And yet you said a few minutes ago that the exchanges had robbed the planters of hundreds of millions of dollars?

Mr. HAYNE. No. I said they might have made that in addition to what they did make; but the Lord knows what the consumer would rob him of if there were no exchanges.

Mr. GLENNY. Let me interrupt you, Mr. Hayne, and say that your statement was that it was the prosecution of the case by the United States Government which cost the planters so much money.



Mr. REILLY. No; he said the exchanges did it through the United States Government's suit.

Mr. GLENNY. Not at all; I want to correct that impression.

Mr. HAYNE. That is right, Mr. Glenny, I said that the prosecution of that case, in my opinion, had cost the South hundreds of millions of dollars.

Mr. TAYLOR. You mean by that that you had certain ideas as to what the law should be, and the Government had different ideas. That is the sum and substance of it. You said that if all these gentlemen got together and bought from the speculator, that was not a monopoly. Now, the Government said it was a monopoly. That is the whole sum and substance of it.

Mr. HAYNE. Yes.

Mr. TAYLOR. Now, you made a remark just now that if it was not for the exchanges, the Lord knows what the consumer would do the purchaser?

Mr. HAYNE. Yes.

Mr. TAYLOR. You mean by that that the producer would have to depend entirely upon the consumer?

Mr. HAYNE. Yes; they would be face to face.

Mr. TAYLOR. And the consumers, being but a small number, they would be more likely to get together and force down the price of cotton for the purpose of benefiting their own business?

Mr. HAYNE. That is exactly my idea.

Mr. TAYLOR. Mr. Haugen wanted to know if you could not limit the grades of cotton to only three grades. Now, that would be impracticable, because if you limit them to two or three grades then you are shutting out the rest of the cotton that would have to go to market, and then naturally the prices of the other grades would be forced down; and you need to have just as many grades as you can practically deal with in order to give them all a fair valuation; is that right?

Mr. HAUGEN. My idea is this: You may give them a grade, but for instance, if I contract for delivery of, say, No. 3, the seller should have the option of delivering to me No. 3, No. 4, or No. 2. If I contract for No. 8, he would have the option of delivering to me No. 8, No. 7, or No. 10, as the case might be.

Mr. HAYNE. Well, I do not think it would be practicable to limit it to that number.

There is just one thing, if you will let me, that I will suggest to you, on the question of the pending bill, to which I did not call attention. I think that some such provision as this should certainly be inserted in the bill:

No cotton below the value of the minimum grade is deliverable; whether you make the minimum grade good ordinary or whether you make it low middling no cotton below that value shall be deliverable. I had neglected to suggest that and I think it a very important point. I do not think there is any cotton delivered in New York which is of less value than good ordinary.

Mr. MARSH. No, sir.

Mr. HAYNE. In New Orleans there is cotton delivered of lower value. They sell you in New Orleans a contract of good ordinary to fair, but they will deliver you good ordinary gritty, and they may deduct one-eighth of 1 cent for the grit; they may deliver you strict

good ordinary, off color and gritty, and it has less value than good ordinary, and I think that that is a very important clause that should be put in the bill, that no cotton of less value than the minimum grade, whatever is decided on, should be deliverable.

The CHAIRMAN. Mr. Sloan has a question he would like to ask you, Mr. Hayne.

Mr. SLOAN. You spoke about how this legislation might assist the spinner and also the producer. Is not this the primary purpose of this legislation, or should it not be, to not only assist the producer, the first producer, and the storekeeper, then the larger contractors, and the spinners themselves, but all the way down to those who actually use the completed fabric, even though it is a part of a child's calico dress? I understand that the real purpose of this bill ought to be to make the exchange conduct its contracts so that its purchases and sales properly published would amount to a barometer or register or a reasonably accurate-value statement from day to day of cotton, which means the spot-cotton price, or the spot-cotton price plus the amount necessary to carry it to the future date. And the complaint is that the exchanges have not so registered that value. Is that not right?

Mr. HAYNE. I think you have exactly sized it up. I think that is what you gentlemen are here for; that you want to make a contract that will exactly carry out what you have defined, and the reason that you want to regulate the exchanges is because their present contract does not carry out the purposes as you have stated them.

Mr. SLOAN. They have not been a good business barometer, which everybody, from the cotton picker down to the cotton wearer, can rely upon.

Mr. HAYNE. Yes; that is correct.

Mr. TAYLOR. What you want is a standard form of contract, the same as the insurance contract?

Mr. RUBEY. What per cent of the futures are for the sole purpose of hedging?

Mr. HAYNE. That would be a very difficult question to answer.

Mr. RUBEY. I mean now, at the present time?

Mr. HAYNE. That would be absolutely impossible to tell with accuracy. Perhaps 50 or 60 per cent. It is impossible to say exactly, but I was going to say this, that the more equitable and fair and just you make the contract the greater proportion of contracts on the exchanges will be legitimate trading and not speculation.

The CHAIRMAN. Mr. Hayne, I should like to ask just two questions before you leave. What effect would the destruction of the exchanges have upon cotton as collateral for borrowing money upon, in your judgment?

Mr. HAYNE. It would have a very adverse effect.

The CHAIRMAN. Just how? Explain that, please.

Mr. HAYNE. I think it would have a most serious effect in the financing of the cotton crop. Futures, whether high or low, really form the basis of the loans made by the banks. The bank usually, on lending on cotton in the South, at any rate, will lend you within \$5 a bale—\$5 margin of the price of the future contract, say of the month ahead, it being understood that you must keep your margin good.

The CHAIRMAN. That is, that you are hedged?

Mr. HAYNE. Well, I will come to that afterwards. But even if they have just this quotation, the bank knows that his cotton goes down 50 points, and you are unable to put up that \$2.50 a bale margin to the bank which you have agreed to put up, the bank knows that no matter how much cotton they are carrying, they are running no risk whatsoever, because they could sell a cotton future and deliver on the exchange this 1,000 bales, or 5,000 or 10,000 bales that they were carrying for you. It makes them perfectly safe.

Mr. HAUGEN. Now, that has reference to the cotton carried in the warehouse; that is not the cotton being grown.

Mr. HAYNE. Not the cotton being grown; it means the cotton after it is marketed; it means how money is raised on it. There is no better collateral in the world, in my opinion, than cotton. It does not deteriorate; it can be kept for years; it is just as good in every way as it was before. It is not like wheat or corn, or anything that weevils and one thing and another can get at and destroy. A five-year-old bale is just as good as it ever was, and if you have a future market, if the borrower does not put up his margins to meet any decline in cotton, the bank can just simply sell a future and deliver all its cotton under it, making it a safe transaction to the bank.

Another thing: Many banks will not lend on any large amount of cotton unless the man that borrows can show that he is hedged; that he has sold against that cotton; that he is covered; that he is not speculating entirely on that 5,000 bales, if that is what he is borrowing on.

And again, I may sell 15,000 or 20,000 ahead to Mr. Parker, for example. Say that there was some extraordinary change in the market; I can show my future contracts and his purchase—my sale to him—and the bank considers that a legitimate transaction to lend money on, and it does so. Without the future market that could not be done.

The CHAIRMAN. Just one other question, Mr. Hayne.

Mr. HAYNE. Yes; I am at your service, Mr. Chairman.

The CHAIRMAN. Have you any idea as to the per cent of intrastate transactions upon the New York Cotton Exchange? In other words, I mean this: What per cent of the transactions on the New York Cotton Exchange is made between citizens of the State of New York?

Mr. HAYNE. A very large proportion.

The CHAIRMAN. A very large proportion; all right.

Mr. HUMPHREYS of Mississippi. In this Smith bill (S. 110), section 3, page 4, it is provided—

That in case long staple cottons are bought or sold for future delivery, the length of the staple shall be designated in the contract and the cotton shall be, when delivered, as of the grade and length of staple designated in the contract.

Now, I would like to ask you, first, referring solely to the purely speculative feature of the cotton exchange future dealings, is there any future market for long staple? I mean by that, purely speculative.

Mr. HAYNE. None whatsoever, and I do not see how there could very well be.

Mr. HUMPHREYS of Mississippi. For long staple?

Mr. HAYNE. No, sir.

Mr. HUMPHREYS of Mississippi. Assume, then, that there is a contract made by the planter who produces long staple cotton with a buyer who wants to buy long staple cotton for consumption in his mill, do you think that any planter could, one month or two months—or two weeks, as far as that is concerned—ahead of his ginning, determine absolutely the length of his staple that he was going to have and the exact grade that he was going to have?

Mr. HAYNE. No; I do not.

Mr. HUMPHREYS of Mississippi. As a matter of practical fact, that would be utterly impossible, would it not?

Mr. HAYNE. Yes; it would be impracticable.

Mr. HUMPHREYS of Mississippi. Now, one other question. This Smith bill contemplates not only the New York and New Orleans Cotton Exchanges, but it contemplates and is broad enough in its terms to include the innumerable so-called cotton exchanges in small places like Greenville, Greenwood, Vicksburg, Clarksburg, Natchez, and so on?

Mr. HAYNE. Yes.

Mr. HUMPHREYS of Mississippi. They have what they call cotton exchanges. They are associations formed by the local cotton buyers under such rules as they may prescribe. If a cotton planter sells to a cotton buyer his crop, and there is some disagreement between the cotton buyer and the planter as to the cotton, whether or not it complies with the contract, under the rules of the local exchanges, almost universally, I believe, that matter must be settled by the exchange, and the cotton buyer has to abide by that, and that adjustment by this local exchange—the machinery for the adjustment—can be put in motion by the cotton planter, although he himself may not be a member of the exchange.

Mr. HAYNE. I think that is true. I think those disputes are usually settled in that way.

Mr. HUMPHREYS of Mississippi. Well, can you suggest any reason why a cotton planter who is reasonably sure that he will make 500 bales of cotton should not be permitted to contract with a cotton buyer to sell him his crop, or sell him 500 bales of long-staple cotton at a fixed price, and then if it happens to be some of three-sixteenths and some of it one-fourth, and maybe some of five-sixteenths—that the grade itself should be a little different from the one stipulated—can you see any reason why that contract should be outlawed?

Mr. HAYNE. It is not outlawed.

Mr. HUMPHREYS of Mississippi. It is outlawed under the Smith bill.

Mr. HAYNE. It could not come in the contract of the New Orleans or the New York Cotton Exchanges.

Mr. HUMPHREYS of Mississippi. No; but what I am talking about—

Mr. HAYNE (interposing). But it is not outlawed, because that contract is one that has to be made between the buyer of the staple cotton and the planter.

Mr. HUMPHREYS of Mississippi. Yes.

Mr. HAYNE. I do not see how the exchange—I do not see how it could be brought in—

Mr. HUMPHREYS of Mississippi (interposing). Now, that is just the point, if there is any question of legal construction—

Mr. HAYNE. But would it help the planter of long staple in any way? I do not see how it would help him at all. I do not see how he would be benefited.

Mr. HUMPHREYS of Mississippi. I think it would help him if you would eliminate that section from the Smith bill.

Mr. HAYNE. I think so myself. I can not see any reason for it.

Mr. HUMPHREYS of Mississippi. It would help him for this reason: This contract that this planter makes with a buyer to deliver him 500 bales of cotton, we will say, in order to come within the condemnation of this bill, must be made in or through an exchange, or one of these little local societies or associations.

Mr. HAYNE. Yes.

Mr. HUMPHREYS of Mississippi. But when the contract is absolutely subject, if there is any controversy, to the rules of this exchange, and must be determined by the machinery put in operation by this local exchange or local association, it is my opinion that the courts are certainly going to hold that that is a contract made either in or through the exchange; and if so, this perfectly legitimate transaction that nobody can complain of comes within the condemnation of the law.

Mr. HAYNE. Well, I noticed that clause in the bill, and I really can not see any reason for its being there. Long-staple cotton is simply a specialty. Compared to a crop of 15,000,000 bales of ordinary cotton, there are a few hundred thousand bales of long-staple cotton, and there are very few mills that use it, and very few buyers that handle it.

Mr. HUMPHREYS of Mississippi. It is not quoted on any exchange.

Mr. HAYNE. No; it can not be quoted.

Mr. HUMPHREYS of Mississippi. And the price of long-staple cotton varies very radically.

Mr. HAYNE. Very radically.

Mr. HUMPHREYS of Mississippi. Much more radically than the price of the other cotton?

Mr. HAYNE. Absolutely. The other cotton can go down in price while long staple is going up in price, and vice versa.

Mr. MARSH. May I ask you, Mr. Hayne, if you have not forgotten that in Liverpool long-staple cotton is deliverable on contracts?

Mr. HAYNE. I know that, and I think it is an objection to the Liverpool contracts. I think that the rule which allows a long staple of cotton to be delivered, but not a premium of more than a quarter of a cent allowed, is wrong. One of the chief objections to the Liverpool contract, and the way that the market is manipulated badly there at times, is the fact that they allow long-staple cotton to be tenderable. I will say that nine-tenths, but nine hundred and ninety-nine out of one thousand buyers of ordinary cotton do not know any more about staple cotton than they know about corn or wheat. They do not know anything about linters. A man may be in the cotton business and not know anything about that. I have been in the cotton business 41 years myself, but I do not know anything about linters. I do know about long-staple cotton, because I handle it, as Mr. Humphreys knows. But I do not think that a

specialty like long-staple cotton should be tenderable, and I think that it ought not to be allowed to be tendered in Liverpool; but it is, as you say.

Mr. MARSH. I agree entirely with you on the proposition that great disturbances arise in Liverpool, owing to the fact that long staple is deliverable on contracts; but it seemed to me that the record contained the statement by you that there is no exchange on which long staple is deliverable, and I thought that as we were trying to bring the facts out that statement should be corrected.

Mr. HAYNE. Yes; you are correct about that, but I was referring only to exchanges in this country.

The CHAIRMAN. Representative Bartlett, of Georgia, desires to ask you a question, Mr. Hayne.

Mr. BARTLETT of Georgia. Can you tell us what portion of the cotton-exchange contract, in what you would call the interstate business, is done by telegraph?

Mr. HAYNE. Practically all of it, I should say.

Mr. BARTLETT. To what extent would the contract of sale for future delivery upon the New York Cotton Exchange be affected if the use of the mail were denied those engaged in making those contracts, and how would that affect them?

Mr. HAYNE. It would absolutely stop them. If you gentlemen wanted to make either the New York or New Orleans exchange go out of business—if they had to do the business in a manner which would be considered contrary to the laws of the country, they would quit it.

Mr. BARTLETT. What I wanted to know was, if you went no further in your bill than to deny the use of the mail, which is an unquestionable right of Congress to do by legislation—I say, suppose Congress should pass a law which would declare that contracts for future delivery of cotton would not be admitted to the mails but left open for such contracts, the use of the telegraph or other agencies of transmitting information interstate, like the express companies, how would that affect the business of making future contracts in New York by people who resided in New York and would have to use the mail for that purpose?

Mr. HAYNE. If they had the use of the telegraph and not the mails?

Mr. BARTLETT. If they had the use of the telegraph and the mail: that is the point.

Mr. HAYNE. Well, I do not think the exchanges would do the business if they thought it was a business that could be looked upon as an outlawed business; they would quit it.

The CHAIRMAN. Assuming, however, that the exchanges did not take that attitude, how would it affect the situation? How many of these contracts are transmitted through the mails, as a matter of fact, and how many are transmitted over the telegraph?

Mr. BARTLETT. Yes; that is what I meant.

Mr. HAYNE. Nearly all are transmitted over the telegraph lines.

The CHAIRMAN. Of course.

Mr. HAYNE. But practically all of them have to be confirmed by the mail.

Mr. BARTLETT. If an act should be passed providing that no paper containing the prices or quotations of cotton should be published or

carried through the mail if the prices of quotations were of contracts made on exchanges that did not comply with certain regulations, how would that affect the situation?

Mr. HAYNE. I do not think such exchanges would exist under it.

Mr. BARTLETT. So that you think that if we simply denied the use of the mails and left the telegraph lines open to be used in making the contract it would not seriously affect the business, and it could be carried on.

Mr. HAYNE. No. I think that, although the business is nearly all carried on by telegraph, if the exchanges were forbidden the use of the mails to confirm that contract, it is not likely that the exchanges would continue to exist.

Mr. HUMPHREYS of Mississippi. Suppose the law should provide that no member of any exchange that refuses to conform to the requirement of this bill should use the mails; that would put him out of business, would it not?

Mr. HAYNE. Surely.

Mr. SLOAN. But Congress would not have any right to do that.

Mr. HUMPHREYS of Mississippi. I do not see why.

Mr. HAYNE. If that clause should be put in the bill, that the exchanges which adopt the contract approved by Congress can use the telegraph and the mails—

Mr. HUMPHREYS of Mississippi (interposing). No; say just the mails—

Mr. HAYNE (continuing). Well, use the mails, and those who used any other contracts could not do so, I think you will find that only the contract approved by Congress would be used.

The CHAIRMAN. Does that complete your statement, Mr. Hayne?

Mr. HAYNE. Yes.

The CHAIRMAN. The committee is very much obliged to you.

Mr. HAWLEY. Before adjournment, Mr. Chairman, I would like to ask Mr. Callaway a question.

The CHAIRMAN. You may proceed.

Mr. HAWLEY. Mr. Callaway, you told us yesterday about a sleuth who found a cow?

Mr. CALLAWAY. A what?

Mr. HAWLEY. A sleuth who found a cow. I want to know if that same sleuth has made any inquiry as to who filed the information with the Government upon that delivery of cotton which was the subject of the Government prosecution?

Mr. CALLAWAY. Why, it was rumored—you know about the three tailors of Tooley Street who started the rumor—it was rumored that a lot of New York shorts who had sold something that they did not have welched and tried to get the Government to stop them from having to deliver what they had sold and did not have.

Mr. HAWLEY. Have you any evidence of that?

Mr. CALLAWAY. It is just a rumor. I can not tell you who did it.

Mr. MARSH. I can give you some information on that point. At the time this litigation was started, I was vice president of the New York Cotton Exchange, and I was president of the exchange before the matter was ended.

Officials of the Department of Justice came to me on two or three occasions to ask my opinion about the effect of certain measures which

they had in mind, as, for example, the confiscation of the cotton held by the persons engaged in this operation.

At that time I was assured that no member of the New York Cotton Exchange had approached the Department of Justice; that the origin of the suit had nothing to do with the New York Cotton Exchange or any of its members, but that the source of the complaint could not be divulged to me or to anybody else.

Now, that is the information that was given to me. Whether it is true or not is open to anybody to form his own opinion about. Personally, it was given to me with the conviction which made me believe it to be true.

Mr. CALLAWAY. I would like, Mr. Chairman, to make a statement as to that transaction which lead to the Government suit. There was a little spinner at Montgomery, Ala., named Tanner that I will tell you about. I am the one who got up the cotton that was gotten up by the southern millers in that operation. In fact, I originated and started the taking up of that cotton, and I did it on account of that telegram which I read to the committee yesterday, where I had to buy the spot at 3 cents above the futures.

And three weeks afterwards I asked Mr. Brown, "How can we hedge this?" And he said, "You can not do it, unless you buy some more cotton, and that will bring cotton back to a good basis"; and after further discussion he said, "If some spinners who are friends of yours will take up some, some friends of mine will take up the balance."

And I went south and consulted King & Hulz, my lawyers, as to the legality of the plan, and talked to various cotton merchants and manufacturers, including Hugh Miller, who is the smartest man in Georgia, and who is called a trust company by himself. He said, "This is a good plan." He controlled the Exposition Mill, and after talking to me four hours, he said, "I will take 1,000 bales," and the next day he said, "I will take 2,000 bales." Then a partner of mine went to New Orleans and met a spinner who is a friend of ours and asked him why he did not push this thing along, and we went down there and talked to them. Then we went to Greenville, Miss., and to various other cities. I sent my attorney to Alabama, and Gov. Comer approved of the plan, and we left a list of the spinners who had agreed to take up cotton with Gov. Comer, and he got a little spinner named Tanner to agree to take up 200 bales of cotton. Tanner got a copy of this contract, which has been drawn up by which we agreed to take up so much cotton. He sent it to a New York brokerage house. Perhaps Tanner wanted to speculate a little on the side; perhaps he wanted to find out whether if he deserted he could make some money on the other side, and he sent that contract to a brokerage firm up there to New York, and the brokerage house telegraphed him to come to New York. They got him up there and got him in a room with their lawyer, and they told him that they would indict him and put him in jail if he did not turn United States evidence. My recollection is that the firm was Craig & Jenks.

Mr. HAYNE. I have the affidavit telling about that.

Mr. CALLAWAY. Mr. Hayne has an affidavit giving the names of the cotton brokers who were parties to that transaction, and he can furnish it to the committee if desired. It will involve some other



firms besides that firm. Mr. Hayne, was that firm named in the affidavit?

Mr. HAYNE. What firm do you mean?

Mr. CALLAWAY. Craig & Jenks.

Mr. HAYNE. Yes.

The CHAIRMAN. Yes; I saw the affidavit.

Mr. CALLAWAY. Now, after they got Tanner up there and tried to bluff him and told him that they could have him put in jail, and so on, he let them bluff him; but afterwards he came down to us and said, "Gentlemen, I will fight to the last ditch, and I am going to find Frank Hayne and tell him I have done wrong; you can do what you please with me; but I am not going to keep on doing wrong. I am through with those people." The man had "come back." And Mr. Tanner made that affidavit in the presence of Mr. Hayne and Mr. Parker and myself.

Mr. HAYNE. That is right.

Mr. CALLAWAY. He made that affidavit and named everybody, and it is sworn and subscribed to, and Mr. Hayne has the original.

Mr. HAYNE. Yes; I have the original, and am very willing to furnish a copy of it to the committee or anybody.

Mr. HARRISON. Does that furnish the names of any of the members of the New York Cotton Exchange?

Mr. CALLAWAY. I think there are two firms named.

Mr. HARRISON. Well, were they at the time members of the exchange?

Mr. CALLAWAY. Yes; they were at the time.

Mr. TAYLOR. Why should it be an offense, either in morals, economics, or law, for a man to take the goods he contracts to buy, and work those up into the useful commodities?

Mr. CALLAWAY. I do not think so; I do not think he commits a crime. I think he is taking a contract where the goods were held in a warehouse in a combination in restraint of trade and using those goods up. It is just the reverse; it is releasing the goods for the use of the world.

Mr. HARRISON. Mr. Chairman, I understood you to say that to-day would be given over to the proponents of this legislation?

The CHAIRMAN. Yes.

Mr. HARRISON. What time will be given over to those who oppose this legislation?

The CHAIRMAN. Dividing the time between the two sides, I assume that the proponents of the bill, having taken yesterday, and taking up the balance of to-day, the other side, representing the New York Cotton Exchange, would desire two days to reply and to make their statements.

Mr. HARRISON. The reason I asked this question is that I am heartily in favor of legislation of this kind, but I do not take the views that the chairman of the committee and some other members of the committee take, or that the spinners take, or those who have spoken as the proponents of this legislation. I think the exchanges ought to be legislated out of existence; and I think those of us who take that view ought to be heard before the committee, for the good reason that if this legislation is reported to the House, we, as Democrats, do not desire to oppose the committee but want to stand by the committee if we can; but we at least want to be heard; and surely those

who oppose the legislation would not like us to monopolize or take up their time. So I just make that observation at this time because I have a bill before the committee that I desire to speak about, not to argue as to the merits of the proposition, but the legal phase of the proposition—a measure that I think will wipe them out of existence—and I would like a little time on that before the hearings close.

Mr. MARSH. Mr. Chairman, I simply want to say that neither Mr. Cone nor I appear here as opponents of this legislation. My understanding of these hearings has been that the purpose of them was to bring out the facts as fully as possible, and we have come here in that spirit and not in the spirit of opponents of the legislation.

The CHAIRMAN. I am very glad to hear that; and, that being the case, there will be no equal division of time, and we will call on you gentlemen in the order in which we can reach you. And, that being the case, Mr. Harrison—

Mr. HAUGEN (interposing). Are we to understand, Mr. Marsh, that you are in favor of the bill?

Mr. MARSH. I do not appear here as opposing it. I think the bill has matters in it which might do harm, and I propose to bring out that phase of it. But when one says opponents of bill, one rather gathers the sense of their being in principle opposed to the bill, and I can not say that in principle we are opposed to the bill. There are questions of detail, questions of practical adjustment, which we desire to present, but we do not appear in opposition to the principle of the legislation.

The CHAIRMAN. Do you wish to make some suggestion in the way of amendment, as these other gentlemen have done?

Mr. MARSH. Exactly in the same way in which the other gentlemen have spoken.

Mr. HAUGEN. Well, I take it that, on principle, one is either for or against a thing, and we would like to know whether this meets the approval of the exchanges. We are trying to get the facts.

(Thereupon, at 12.30 p. m., the committee took a recess until 2 o'clock p. m.)

#### AFTER RECESS.

The committee reassembled pursuant to the taking of recess.

The CHAIRMAN. Col. Thompson is present with us this afternoon, and he desires to be heard, as he expresses it, very briefly.

#### STATEMENT OF MR. ROBERT M. THOMPSON, OF WASHINGTON, D. C.

The CHAIRMAN. Colonel, will you give your name to the stenographer?

Mr. THOMPSON. Robert M. Thompson.

The CHAIRMAN. Col. Thompson, proceed in your own way now to present your views to the committee.

Mr. THOMPSON. I want to answer one or two questions that were asked by members of the committee and which I do not think were fully answered before. One is in regard to the number of transactions that took place upon the exchange which are purely speculative, having no connection whatever with business. In my judgment, these transactions do not amount to more than 10 or 15 per cent of the total transactions.

Mr. HAWLEY. On which exchange?

Mr. THOMPSON. The New York exchange. I think the same is true of all of the exchanges.

What actually takes place on the exchange is this: At the beginning of every cotton year, as all of you gentlemen well know, a very large proportion of the crop is hedged, as the expression is, by future sales. From time to time the parties to those contracts change by what is in effect an assignment, though sometimes it is done in the form of a sale; but it is practically an assignment from one hand to another. The original contract remains alive until it is finally canceled, when the business transaction on which it is based is canceled.

Mr. RUBEY. Every time one of these changes hands is there a money consideration in that transaction? Is there a payment from one to the other every time a transfer is made?

Mr. THOMPSON. Generally there is a difference that is paid. That is to say, a gentleman over here expressed very clearly what the transaction is. It is a contract of insurance. A man who sells the hedge is selling it against a purchase of actual cotton, or, on the other hand, he may buy cotton on contracts against a sale of manufactured goods.

Mr. RUBEY. The whole object of that transfer from one to the other is to make money?

Mr. THOMPSON. Yes; it is to make money for one man in it. A man, for instance, who had undertaken to insure, finds that the price has advanced to a point where he is satisfied with the premium that he is to receive, and he takes his premium and finds somebody else who at that moment is in the mind to insure it a higher basis, and that man steps in.

Mr. RUBEY. Right along that line, is it anything like this: Suppose I own certain shares of stock in a mine and it is going up and up and up, and finally I think it has gone as far as it is going and I sell it to some other fellow who expects it to go still higher?

Mr. THOMPSON. Yes.

Mr. RUBEY. Now, is that the same transaction in connection with the cotton in dealing in these futures?

Mr. THOMPSON. It is not quite the same.

Mr. RUBEY. Is it along that same line?

Mr. THOMPSON. It is along the same line, but it is like this: Suppose there is in a town one old mule and a man buys it, and after buying it and having it for a short time does not want it any longer, he sells it to another man. And that man sells it to another man. In the course of a year there might be 12 mules sold, but all the time it is the same old mule. That is exactly the way that cotton contract is turned over a dozen times in the course of the year—the same contract.

Mr. RUBEY. Except this, in the first case the mule actually changes hands every time. The man takes it home and keeps it, and he then takes it to somebody else and he keeps it a while and sells it to somebody else. In the cotton transaction nobody ever sees a bale of cotton; the cotton is not transferred from one to the other.

Mr. THOMPSON. But the contract is, and the contract is a contract of insurance. It is exactly like a contract of insurance on your

house. You sell your house and the contract of insurance passes to the new owner.

Mr. MAGUIRE. Except that you could not deliver it.

Mr. THOMPSON. Could not deliver what?

Mr. MAGUIRE. You could not deliver the physical property.

Mr. THOMPSON. The intent is not to deliver the physical property unless under certain conditions which may arise, and that is what we who favor the present legislation—and I do favor it, and why I favor it is that I want that market held in contact with the actual commercial business of the world. As soon as you allow it to do as has been done so much of late, to have the actual contract entirely broken away from the commercial conditions of the world, then it ceases to be valuable.

Mr. HAWLEY. Does the contract hold any such relation as this: I have a thousand sacks of wool in a warehouse. I get a warehouse receipt. I transfer that receipt for wool to another man. He then becomes the owner of the wool. He transfers it, and that may be passed through 10 or 12 hands before some man takes out the wool and manufactures it. Is that the theory of your exchange?

Mr. THOMPSON. That is exactly what happens.

Mr. HAWLEY. And your contract is simply in the nature of a warehouse receipt?

Mr. THOMPSON. In a sense; yes. It is more truly in the nature of an insurance policy. An insurance policy once taken out is transferred a dozen times, perhaps.

Mr. HEFLIN. In one case the wool is actually placed in the warehouse and the receipt is given for it. He sells the receipt, which carries the title to the wool. Now, in the cotton transactions carried on on the New York Exchange, as I understand it, no actual cotton is the basis of that. It is a contract between two men, and neither one may have any cotton.

Mr. THOMPSON. That would follow in what I say represents, perhaps, 10 or 15 per cent of the actual transactions, but in 85 or 90 per cent the actual cotton is in existence, and is held by a man, perhaps by several men in succession, each man wanting insurance. If you were to do away with the cotton exchange, the people who would be affected are not the big traders. The large traders on the cotton exchange to-day, gentlemen, would be very much obliged to you if you would put an end to the cotton exchanges, because they do not seek credit. Their credit is broader and on a different foundation, and they will get what money they want for their business in a different way, but all the small men spread all over the country, who are doing a perfectly legitimate small business, will be wiped out, and your farmers and planters will be obliged to deal with the big men alone, who can make their own prices. Now, we have the competition of a very great number of small men who have some capital and some credit which they reenforced by the fact that they hedge themselves against loss and will not do a speculative business. In any insurance company you must have two sides of the insurance; the man who wants things insured and the man who is willing to take the risk of insuring them. If you were to do a business to-day in 100,000 bales of cotton and went and bought your actual cotton from dealers, you are at the risk of the market, and if you are a

small man and the market goes down a cent a pound you are wiped out before it gets down there, but if you have sold a hedge on the cotton exchange, and if the cotton exchange is so regulated that the prices of its contracts vary, and vary truly with the market price, then that man is absolutely safe.

Mr. HEFLIN. What would you think about the proposition of confining this dealing in cotton on the exchange to the hedging operations?

Mr. THOMPSON. The difficulty about that is that you have no practical way of doing it. You have to have a market large enough. Take, for instance, the two months in which the great hedging is taking place, beginning in September or October and running through November. While the great bulk of hedge sales are being made it is a fact that there is a big open market, and there are a number of people who think they are merely speculators, who do not really themselves recognize what their economic relation to the transaction is, who merely think there is a chance to get into the market and take what we call a turn and make a profit. That is not true. The economic nature of their transaction is that they have made a great big open market. If you have got 50,000 bales of cotton that you want to hedge you can go into the market and find somebody who will want to hedge you. If you limit that market and drive out all the people who think they are speculators to-day, you can not do that. When the time comes that your farmer wants to sell, he wants to sell at the moment when nobody wants to buy, but any one of the dealers to-day knows that he can go into the market and buy the actual cotton and instantly, on telegraphic notice, sell his hedge and make a small legitimate profit. I presume—and some of these gentlemen that have had more experience than I can correct me if I go wrong—one-half or more of the cotton the spinners buy to-day they buy on what we call "call." That is, a man says, "I know that I am going to want, for my legitimate business, in February, March, April, or May, so much cotton." They go to dealers with whom they have been in the habit of dealing, who know the class of cotton they want, and say, "I want to buy such and such cotton," and the dealer, who does not want to lose his trade, makes a bargain with him. He is going to deliver that cotton in the month when he wants it, and the spinner is going to pay him so much margin above the price on the exchange.

Mr. HEFLIN. You mean that the cotton comes back through the exchange?

Mr. THOMPSON. No; the actual cotton will not come through the exchange at all, but the price of it is based upon the quotations of the exchange. As an illustration, a man will say to him, "I want cotton of good middling grade." They agree what the difference shall be between the New York quotation, for instance, and the good middling when it is delivered. That difference is calculated upon a basis which will allow the merchant to buy it and store it and pay the interest that he would have to pay, and the expenses, and when he finally comes to deliver it there is a profit in it for him. If he bought it on the market price to-day and agreed to sell it on the market price a long distance off and then that price fluctuated against him he would be bankrupted, but by going on to the ex-

change he divides what would be a big risk for him among a thousand men. They are taking the chance. They are, if you please to call it such, gambling, as every Lloyd insurer does when he takes a part of a risk on a shipload of goods. But they take that chance with their eyes open, knowing that on the doctrine of chance their premiums in the long run will compensate them for their risk, and give them a profit. That has been my business in the past. I have not intended to be and have not been a large actual distributor of cotton, although in the long run I have distributed a good deal of cotton, because the only way to make that exchange work properly is this: If you have bought contracts, you know that every once in a while it has come out where the people who have been running the exchange have attempted to manipulate the market so as to welch the insurer out of his premium, to artificially depress the market so that you cannot collect the premium that you have earned. The only way for me to make sure that that can not be done is to be prepared to take your cotton. I have bought and sold on the New York Cotton Exchange a great many hundreds of thousands of bales of cotton, and I have never bought a bale that I was not prepared to take up if I had to.

If the contract ran its course and served its purpose, and the time came that the person who sold his hedge was preparing to deliver his actual cotton to the consumer and came to me and said, "Now, I want to close my hedge," I was ready at any time to close it, provided the prices on the exchange were fair and bore a true relation to the markets of the world. I took my chances on that. But if I found, as I frequently do find, that a ring was engaged in depressing the prices so that if I was forced to accept the prices then prevailing I was going to lose the premium I had earned, and perhaps more, I said, "No; give me my cotton. That was your risk in this contract. The risk I took was that I might find prices legitimately going against me. The risk you took is if you attempt to put the prices illegitimately low I will take the cotton."

Mr. HEFLIN. Suppose they offer you the cotton.

Mr. THOMPSON. Then I took it.

Mr. HEFLIN. If it is not the kind of cotton you want? Suppose you are a spinner?

Mr. THOMPSON. I am talking of a person like myself—neither a spinner nor a producer, but an insurer. All I want is cotton that I can go and sell to a spinner at some time. I have at different times owned every bale of cotton in the warehouse in New York. When it has come up to the point where it had to be done I have taken it up. I have found the cotton in New York in such condition that the cotton in New York bore no relation whatever to the actual crop that it was intended to represent and it was cotton which could not be sold to the consumer except at a great sacrifice.

Mr. HEFLIN. How long had that cotton been kept there?

Mr. THOMPSON. I do not know, but it was kept there until it was absolutely worthless except for stuffing for horse collars or mattresses.

Mr. HEFLIN. It had been kept there for years?

Mr. THOMPSON. It was kept for two or three years, I suppose. I know that I have taken cotton up and forced it out on the market,

and I do not think that there was a single bale of that cotton I put out that did not represent a loss of at least \$5 a bale below what I could have gotten for it by going and selling it on the exchange, provided my resale did not break the market. I could have gotten on the exchange \$5 a bale more than I could get for it by selling it to the consumer, and the loss upon it ran up into hundreds of thousands of dollars. Being a merchant and recognizing how these things went, I took the precaution to so arrange that I had divided that loss among my fellow members of the New York Cotton Exchange. I was trying to do a public service, but I did not bear the entire loss.

The CHAIRMAN. You are a member of the New York Cotton Exchange?

Mr. THOMPSON. I am not a member of the New York Cotton Exchange, but the firm through which I deal, of course, is.

Mr. YOUNG. Here is a practical operation of the present system on the farmer in my country, and this same thing happens over and over again. A farmer 10 miles from town has 10 bales of cotton that will be gathered and ginned in his back yard. Of course, he goes ahead gathering his crop. He telephones into town to his merchant who usually buys his cotton, say, at 10 o'clock in the morning and gets the quotation on middling cotton at 12 cents and he is satisfied to make a sale at that price. He hitches his team to the wagon and takes his 10 bales of cotton to town. It has frequently happened that that farmer in that two-hours' drive, instead of getting 12 cents a pound for his cotton, cotton has depreciated to \$46 a bale by the operations of the brokers on the market at the exchange. That condition makes the farmer a very much dissatisfied man, and it is that condition we want to reach by this legislation. That cotton was just as valuable when it got to town as it was when the quotation was phoned out to him.

Mr. THOMPSON. The difficulty with the farmer generally is that his operations are small. He has not the time or perhaps the ability to study the scientific workings of these transactions. I am using the personal pronoun in some of these transactions in order to illustrate my point.

In the year of the big crop I offered the farmers of the South the opportunity of delivering their cotton, receiving part payment and having the option of fixing their price any time over the next 18 months. That was an offer by which the service that the exchange has rendered to the manufacturers constantly could have been transferred to the farmer. The farmer did not accept it. He was suspicious of any man that came along and offered him something. He thought there must be some wicked desire in it, so they would not take advantage of it. There were only three or four in the whole South who did take advantage of it. They all made a profit of about 50 per cent, because they waited until the market went up to close their transactions. That did not involve a penny's worth of risk to me, because in every one of these transactions I simply found men on the exchange to take these contracts. The commission men came in, and I sold my contract on the exchange, which I had previously bought, and my buying tended to keep the price up and tended to give the farmers higher prices. I bought from the farmer and sold on the exchange what I had previously bought on the exchange.

The result was that the farmer got a good price and I got my commission.

The large farmers could use the exchange, but the little fellow with only 10 bales of cotton could not use it, because the unit on the exchange is 100 bales. What I urged them to do was to combine themselves or consolidate themselves so they could do it.

Mr. MAGUIRE. Could you have carried your work on satisfactorily if you had not had the advantage of the exchange?

Mr. THOMPSON. It would have been absolutely impossible. Gentlemen, as far as the methods that I am going to describe through the medium of exchanges is concerned, personally, I do not believe that that is the best method for the South. Personally, I believe that a method could be devised which would save the South from \$50,000,000 to \$100,000,000 a year, but it is a method which can not be prepared except by making an appropriation beforehand for it and getting things arranged. It would mean new legislation and a good deal of capital. If you people would undertake to put an end to the exchanges to-day the people who would suffer by it would be the small farmer and not the big dealer. The big dealer would make more money than they ever dreamed of making before, because they would have a great advantage. They are the only people that can take advantage of it, men who have plenty of money without going to the bank, and without credit on the cotton contract.

Mr. HEFLIN. What would you suggest in the way of legislation to confine the dealing on the exchange to commercial transactions, which you referred to a moment ago?

Mr. THOMPSON. I can not see how you could eliminate that.

Mr. HAWLEY. That is, eliminate gambling?

Mr. THOMPSON. Yes, sir. But the transactions which are purely gambling—that is, gambling on both sides—are but a small percentage, and they almost invariably get their own punishment. It is not necessary for anybody to punish them, the inexorable will punish them anyhow.

Mr. HAWLEY. That is, they lose and drop out of the business?

Mr. THOMPSON. Yes; they lose. If left alone every one of these men who have been gambling on the cotton exchange will meet their own punishment. If you will trace their history you will find that men who were at one time very big, to-day you will see them sitting around board rooms trying to get credit to go in and get 10 bales in a bucketshop operation, or something of that kind. They have been broken up. The actual interests of commerce are bigger than all speculation. You can not get a combination of men—there can not be such a combination conceived of—who can corner the cotton crop.

That is the real reason I came here to-day. I wanted you gentlemen who are representative Congressmen and men representing the great agricultural interests of the country, to know just exactly where the case that was tried against us gentlemen who are trying to protect the price stands and where it stood. What actually took place is this. If I am telling you things that you already know please tell me, but I think it is necessary in order to make a logical statement.

Before the cotton crop which was harvested in 1910 was planted people began offering that crop for future delivery. The previous year's crop had been a very big one and there was a surplus left over.



The price had gone very low, and they kept offering and offering, and no one commenced to buy until they offered the crop down to a price so low that economically it was the lowest price that cotton ever touched, though in cents per pound it was not. It went down to 8½ cents.

Mr. GLENNY. Pardon me, Colonel, that was in 1908, was it not, and not in 1910?

Mr. THOMPSON. It was in 1908. If I said 1910 that was a mistake. It was the crop for which we afterwards were indicted. That is what I remember it by.

At that very low price people went on making sales or making offers of sales in large quantities, and gentlemen like Mr. Lane and Mr. Brown and others, who had constructive feelings, felt that this price was away below the cost of production, because, as I say, economically, measured by the amount of pork and grain that a bale of cotton would buy, it was the lowest price ever quoted for cotton. Therefore a great many men began buying, and presently the people who had been selling awakened—began to find that in the aggregate they had sold a tremendous amount of cotton at a very low price. Summer came on and conditions were such that it presently came to be clear even to the dullest intellect, that the crop instead of being a bumper crop, such as the two which had preceded it, was going to be a very small crop. People began to be frightened and began to try to buy back their contracts. When the actual crop had begun to move prices rose from the prevailing price of 8½ cents to 14½ and 15 cents. That meant that any person who had sold what he could without having any comeback tied to it was involved in very great loss. So there began a war between the two opposing factions. The people who had bought contracts were called bulls, not that they wanted to go on buying more contracts, not that they wanted to go on and advance the price still higher, but they wanted to get out of the contracts that they had bought at a profit which on paper they had already earned. The other side was determined that they should not make that profit, and they watched every opportunity when they tried to sell, and would slam the market right down.

This continued until along in January when, through some banking disturbance that took place in New York, they saw their opportunity to crush one of the big bears who had bought a tremendous quantity of contracts, and they went out and called margins on him, thereby forcing him to sell a number of his contracts. And they were not satisfied to buy them in at a reasonable price, but they turned in and broke the price so that the quotation in New York was about 3 cents a pound below the price at which you could buy actual cotton in the fields. The man had to take his loss, and these bulls got it, and if they had been content there it would have been well and good. But they said, "We got this man, and we will go out and get others." They began bidding. Along came buying orders from all over the world, just like air will come to a vacuum, because they were offering cotton so far below its economic value. These persons sent the prices up again. It was then that some one, the natural inference was, who stood to lose money in some way, came down to Washington and appealed to the Attorney General, and he ordered an investigation with the idea of making an attack on the bull ring, so called.

Mr. HEFLIN. Pardon me for interrupting you, but right in that connection, Mr. Wickersham was the Attorney General then, was he not?

Mr. THOMPSON. Yes, sir.

Mr. HEFLIN. Was his law partner attorney for the New York Cotton Exchange at that time?

Mr. THOMPSON. He was, and Mr. Wickersham himself had been attorney for the New York Cotton Exchange before he became Attorney General, so that his sympathies were naturally on that side.

Mr. HEFLIN. Who is the attorney for the cotton exchange now?

Mr. THOMPSON. I think Mr. Taft. It is the same firm that always has been, of which Mr. Taft is a member. Mr. Marsh can tell you that.

That this investigation was being pushed in some strange way, I bear this testimony. Personally having had sickness in my family I had, along in November and early December, closed out every bale of cotton I had and had gone abroad. I was at Tientsin or over at Mount Sinai, or some part of the world where I got letters once a month and telegrams three or four days after they were sent. A telegram came to me saying, "A representative of the Attorney General has called upon us—'us' being the firm for which I buy cotton—saying that they intend to indict the bull operators. They know that we have been connected with cotton, but they do not want to indict you, and if we—that means the firm I referred to—will open our books and supply them with all the evidence we can against the bull operators they will give immunity to you and to us." I replied to that cable as soon as I got it, which was two or three days late reaching me; and I replied to it, sending the reply that I believe every American with an American's idea of what is decent would have sent. I replied, I think, about in these words: "You tell the Attorney General to go to hell. If we have any evidence to which he is legally entitled he has a legal method of getting it; but if to obtain immunity for yourself or for me you betray the business secrets of your clients, you are behaving dishonorably. Do not be bulldozed." In all of the following years I persisted in demanding a trial. I never joined in the legal motions or demurrers or the appeal to the Supreme Court, but I persistently, every two or three months, went into court demanding my rights as an American citizen to have a trial. I said, "I do not care what law you need, I will sign a written stipulation that the law is as the Attorney General says it is. I merely want the chance to prove that every allegation he has made in his indictment is a lie, a whole lie, and nothing but a lie." But they took very good care never to give any of us a trial.

Mr. HEFLIN. Right in that connection let me ask you a question. Did the Attorney General make any effort at that time to prosecute anybody for breaking the price and trying to put it down?

Mr. THOMPSON. No; and that is something that I am coming to, because it is something of great importance to me. This case went up to the Supreme Court of the United States on appeal from the court below. The circuit court had decided in favor of the demurrers interposed by the defendants, and they said there was no case against them on every point except some unimportant point. The Supreme Court, by some strained construction, said the court below must have

found the fact that these gentlemen had agreed together to buy up the entire cotton crop, to withdraw it from the market, and hold it until they could obtain monopolistic prices, and the court below decided that that was not contrary to the Sherman law, and if that was the position of the court below they held that they were wrong, and they sent the case back to the court below to have them restate the facts, to see whether they did find that fact. The Attorney General, knowing perfectly well that there were no such facts to be stated, and to bring the case back to the Supreme Court must result in a final decision in favor of the defendants, made haste to withdraw those indictments, using some language in the decision of the court, so they reindicted us on this allegation that we had bought from speculators, whom they define to be persons who offered for sale cotton which they did not have, that we bought that cotton knowing that we were buying from people who did not have cotton, and that we refused to sell back to those people some cotton that we had bought from them. In other words, having bought long ourselves, we refused to sell short. That is what we were indicted for, and that is what our attorneys advised us if we stood trial upon we were very liable to be convicted.

If that is the law, then the sooner you change that law the better it will be for the South and for the great agricultural interests, which are the foundation interests of this country. That is the only thing for which there is any precedent. We pleaded that we would not contend against that accusation. We had been for years and years trying to get a trial, and now they sprung a trial upon us upon an entirely new point, and we said, "Gentlemen, we will pay your fine. Fine us and let us get out; we are tired." But if that is to be held as a precedent, who dares to go on the cotton exchange and protect the price of cotton against whatever the foreign spinners or foreign speculators may choose to do? For they can go on the exchange and constantly make offers for future deliveries, and nobody dares to accept them, and they can make any price they want. The farmer may say that he will not be ruled by those quotations, but in the long run he is bound to be ruled and influenced by them. They make the price of cotton in the world. That the price of cotton will not be held accurately to those contracts is evidenced every day because the New York contract has been this year so far below the actual price of cotton that no man could bring cotton from the South, provided he brought in this year's grade of cotton, and put it into New York and put it on the market and deliver it without making a loss of anywhere from \$4 to \$6. Is that not right, John Hill?

Mr. HILL. It is.

Mr. THOMPSON. That is because of the general belief that the cotton which was actually in store in New York was so low that any man who took it up and depended upon marketing it to the consumer would have to take a loss.

Mr. HEFLIN. Why are the contracts selling so far below the actual cotton?

Mr. THOMPSON. Because it does not represent commercial cotton but represents a class of cotton accumulated in the warehouse and stored in New York. The contract calls that base middling, and then they have a long list by which they can deliver cotton at various dif-

ferences. These were fixed upon a purely arbitrary basis, and were fixed in accordance with the wishes of the clique in power. If the clique was a bull clique they would hold the cotton in and resell it, so they would keep the price of cotton out of store, and they being bulls the price of their contracts would go up, whereas, if they were bears they then would manipulate the rest of the cotton so that the cotton was in grade so low that when you went and got your deliveries you could not get them in the grade without sustaining a great loss.

Mr. YOUNG. Do you believe those transactions are honorable transactions?

Mr. THOMPSON. I do not. I believe many of them were most highly dishonorable, and I believe if the people who dealt in them would get their dues they would be in State's prison.

The CHAIRMAN. Have you read these various bills before this committee attempting to deal with this situation?

Mr. THOMPSON. I have; yes.

The CHAIRMAN. Would you like to make any suggestions of any changes in the phraseology of any of the various bills as corrective of the things you refer to?

Mr. THOMPSON. Of the two bills I prefer that bill which reaches this thing by the taxing power rather than the one which prohibits the use of the mails. I dislike to disagree with Mr. Hayne on anything. I do not believe anybody knows any more about cotton than he does, but I believe I know as much about the workings of human nature and the men engaged in commercial transactions. If you could by law make the transaction in itself illegal, impinge upon it the stigma of illegality all the way through; but if you merely go to the extent of saying that they can not use the mails or telegraph lines, they will use the telephone or find other ways of getting around that. I do not believe you can get a better method than to put a prohibitory tax upon one kind of contract and a tax upon the other kind so large that it can not be shifted back onto the farmer, but would yet yield a sufficient revenue to pay the expenses of the Government in connection with what the Government is seeking to do. Mr. Hayne's opinion was if you prohibited the use of the mails, that would stop the business. I do not think it would.

Mr. HAWLEY. Suppose you prohibit the use of the mails, and you prohibit the sending of this kind of telegrams through the telegraph companies, or the use of the telephone for gambling purposes or speculative purposes, as the case may be?

Mr. THOMPSON. They would be used for gambling purposes. The man in the South that was a dealer, who has gone out and agreed with his neighbors around there that he will take a thousand bales of cotton, for which he has got to find a market, and if he has found an actual buyer, a buyer on call for future delivery, there is no gambling. It is just the reverse of gambling. When he sends on to the exchange and orders them to sell he is trying to prevent gambling. It is a legitimate business transaction in which he insures himself his profit.

Mr. HEFLIN. Suppose the Government should declare that messages regarding contracts of that character should not be sent over the telephone or over the telegraph wires or through the mail, do you not think that would reach it?

Mr. THOMPSON. I think I would, in answer to that, make the statement made by that learned lawyer, Lord Earlston, in which he said it was within the ability of any able lawyer to drive a coach and four through the four corners of any act of Parliament. I am not certain that they can do that entirely, but when you set thousands of minds working against a few minds preparing this law, if there is a loophole they will find it. The only thing they can not find a loophole against is taxation. There you have the whole taxing army of the United States looking out for the taxes of the country, and a man takes a risk so far out of proportion to what he stands to win, that it would deter him. Of course, if you do open the mails, I do not say the method of prohibiting the use of the mails can not be made useful. I think it can, but in my judgment it is not going to be as useful as the direct-taxation scheme.

The CHAIRMAN. Do you think that tax of 5 cents a hundred bales would be transferred to the farmer?

Mr. THOMPSON. No; 5 cents or 10 cents would never go back to the farmer; it is too small. You could not get it back to him.

The CHAIRMAN. Do you think the maximum tax provided on these outlawed contracts is sufficiently high to be effective?

Mr. THOMPSON. I should think it is. I should say that a tax of \$5 or \$10 a bale would be effective.

The CHAIRMAN. It is 50 cents a bale.

Mr. THOMPSON. That is not enough.

The CHAIRMAN. Would you make it \$5 a bale?

Mr. THOMPSON. Yes.

Mr. HEFLIN. On what character of transaction would you place a tax of \$5?

Mr. THOMPSON. Every one that went on the old contract. I would put a prohibitory tax on that, and then I would make a contract where the Government would be the final basis in deciding what grade it is going to be delivered upon. I have had this experience. I would find fault with the grading delivered to me, and I have sent it back to the man who did the grading, and they said, "Yes; we have made a mistake; they did overgrade that, and we have got to make you an allowance." Then it had to pass up to the committee of the exchange who had charge of the fund, who would have to bear the expense of that mistake, and they have refused to approve the judgment of their own employees and refused to make the allowance.

Mr. GLENNY. Can you tell us where that was?

Mr. THOMPSON. That was in New York. I have not had any experience with the New Orleans exchange.

Mr. HAUGEN. Would it not be better to provide the cotton exchanges from the start with Government classers?

Mr. THOMPSON. I believe that the classing of the cotton had a great deal better be in an outside hand entirely, free from any influence of the exchange. I believe it would be better to have a Government official, and I believe the business of the cotton exchange could afford to pay these classers, and if they had nothing to fear from one side or the other of the exchange their grading would be fair to both sides. The trouble has come from just that difficulty, that the grading has been favorable to the managing clique—some-

times on one side and sometimes on another—whenever they got hold of the machinery of the exchange. It was only human nature. I do not want to bear too much upon the individual. I do not say the individual is constantly being dishonest, but it is, however, a well-known fact that the machinery of the exchange has been used from time to time to the detriment of the public.

Mr. HAUGEN. That is the complaint as to the grain inspection in the West, where the inspection is now being done by the States. It is charged that the boards of trade control and have influence over these inspectors and they do not get a square deal.

Mr. THOMPSON. It is human nature again, Congressman, for the man upon whom anything is bearing to complain of it. I am inclined to think that the truth will lie between the two. But even granting that the exchange is being honestly managed, there will always be that feeling of doubt; and it is for the interest of the public that that should be removed, and the public will not have the same doubt of a Government inspector as they will of a board of trade inspector.

Mr. HAUGEN. It is better to have some disinterested party determine the grade?

Mr. THOMPSON. Sure. And then another thing; the greatest machinery in producing these bad results has been the uneven running of contracts. When you get a contract for 100 bales with perhaps 20 different grades in it, and in New York—not in New Orleans, but in New York—being a broker unable to tell which bales represent different grades, you are forced to go to the expense of taking those all out when you want to ship them and regrade them. You do not know how fast that runs into thousands of dollars. What I have complained of of the machinery of the New York Cotton Exchange is this, that first and last the New York Cotton Exchange authorities have done what they could to prevent New York becoming an actual cotton market in the sense in which Liverpool is a cotton market, because in Liverpool the spinners of that country are constantly coming into Liverpool and buying out of store the actual cotton they want on samples presented to them. But the gentlemen who spin cotton in America and who might want to take cotton out of store in New York know that they do it at their peril; they know if they are going to take cotton up they will probably be given the very worst cotton which the man delivering it to them can control. If you will give them even running grades—that is, say, 100 bales of cotton—let it be of one grade, and if it is fixed, put a tax on it that will enable the buyer to go out and sort that out, it will meet that criticism.

The CHAIRMAN. I judge you are an optimist from your general attitude toward things, and I take it you have been a bull on the market. Is that true?

Mr. THOMPSON. I never sold a short bale in my life. [Laughter.] Part of my business has been sentimental. I have for a long time been a student of economics.

Mr. HAUGEN. The trouble you are pointing out would be eliminated if we were to provide for Federal inspection?

Mr. THOMPSON. Federal inspection.

Mr. HAUGEN. Mark it and tag it, or do whatever would be required in order to identify it.

Mr. HEFLIN. What would you have that inspector do?

Mr. THOMPSON. I would have him do what the people of the cotton exchanges are doing now—remove those people who are being paid by the cotton exchange, on whom their lives depend, whose positions depend upon their being upon good terms with those in control of the cotton exchange, and take them out of their power.

Mr. HEFLIN. You want him to decide the issue like a judge on the bench.

Mr. THOMPSON. Yes; he should say this cotton is of such a grade; and then if the cotton exchanges have any dispute to raise about it, they raise it right there, and once it is put in they will be forced to guarantee it, and they will be forced to guarantee the work of a man whom they do not control. The exchange is really a public body. There is considerable talk about how much of the business of the exchanges is between citizens of the States. Gentlemen, that has got absolutely nothing to do with it, because the ultimate business transaction takes place between two brokers.

Mr. TAYLOR. The only reason that has been raised is to find out how far we can legislate with respect to interstate commerce.

Mr. THOMPSON. The great bulk of that business is business that comes from all over this country and all over Europe. I know that in this week or ten days in December when they broke the prices, and they commenced to go down, orders came in from every country in Europe, and even from Egypt and far-away Bombay.

Mr. HEFLIN. The parties to a transaction—doing business of the exchange—are both brokers of New York?

Mr. THOMPSON. They are brokers. They are only agents; they are not principals. If the brokers of New York to-day were to disclose their principals, you would find they come from all over the United States.

Mr. HAUGEN. How many States provide for classing cotton?

Mr. THOMPSON. I do not know of any.

Mr. HAUGEN. Then the fact is that the exchanges do all the classing and inspection, and they class them just as they will?

Mr. THOMPSON. They do all the classing of so much cotton as actually comes to New York, but that is a mere fraction, and generally the class of cotton that comes to New York is made up this way. The dealer in the South has got to take all the cotton offered to him by the grower. There may be 20 bales or 18 bales or 19 bales, say, of one grade of cotton, and 1 bale is his cleanings. That is put to one side, and finally he has got 100 bales of all kinds, colors, and grades; and the only way he can get rid of it is to send it up to New York and put it on contract. The result is that the contract, instead of representing, as it should, marketable cotton represents dogear and every kind of stuff.

Mr. HEFLIN. And they keep that character of cotton you speak of, and tender it over and over?

Mr. THOMPSON. It is tendered over and over; and that is the way they work it.

Suppose you have got 10,000 bales of cotton to deliver in May, and you do not want to take the risk. I have been hoping the prices are going to go a little higher. Things begin to come about so that I know cotton is going to be thrown at me, and I rush out and sell it at what I can get. If I am still bullish on the market, I rush out

and get a hedge. Again, they keep the near-by month and market the month that is the month they make their profit.

Mr. MAGUIRE. Do the members of that exchange limit their activities solely to dealing in cotton, or do they deal in other commodities?

Mr. THOMPSON. On the New York Cotton Exchange they deal only in cotton. The houses having representatives on the floor may also be represented on the grain exchange.

Mr. MAGUIRE. How much connection have they with grain and its products?

Mr. THOMPSON. I fancy that the well-known cotton houses have very little to do with the other exchanges. They may have, in connection with the facilities they have there; but I think the typical cotton houses deal almost exclusively in cotton.

Mr. JACOWAY. What per cent of the brokers of New York represent interests outside of New York?

Mr. THOMPSON. You mean the percentage of the transactions or of the brokers?

Mr. JACOWAY. Of the brokers.

Mr. THOMPSON. I presume that there are a great many brokers there who represent foreign houses.

Mr. JACOWAY. I say foreign houses and people in the Southern States.

Mr. THOMPSON. Mr. Marsh could answer that question better than I could, or Mr. Hill. I am not a member of the exchange and am not quite so familiar with it, but I should say if you asked me about the transactions and not about brokers that certainly 90 per cent of all of the transactions are transactions which affect interstate commerce, and only about 10 per cent, or, at the outside, 15 per cent, would be intrastate, and that is those which I have classed as purely speculative.

Mr. HAUGEN. What is membership on the exchange worth now? Do you know?

Mr. THOMPSON. \$12,000. That is very small compared to the grain exchange.

Mr. SLOAN. What is the membership of the cotton exchange?

Mr. THOMPSON. \$12,000.

Mr. SLOAN. I mean the number of members.

Mr. THOMPSON. Four hundred and fifty.

Mr. HAUGEN. I would like to know something about this inspection and grading. The farmer brings his cotton to town, and then what happens?

Mr. THOMPSON. He delivers it to the local buyers.

Mr. HAUGEN. Who determines the grades?

Mr. THOMPSON. The buyer.

Mr. HAUGEN. The buyer ships it to New York?

Mr. THOMPSON. No; the amount of cotton that is actually shipped to New York is very small.

Mr. HAUGEN. Well, take the transaction going through New York, and he ships it to New York, and who determines the grade?

Mr. THOMPSON. If it is to go on the cotton exchange, a set of employees of the cotton exchange weigh it and grade it.

Mr. HAUGEN. Persons employed by the cotton exchange weigh it and grade it?

Mr. THOMPSON. Yes, sir; their representatives.



Mr. HAUGEN. Representatives of the New York Cotton Exchange, and nowhere is the farmer or cotton grower represented?

Mr. THOMPSON. By the time it has reached there the farmer is out of it.

Mr. HAUGEN. It is out of his hand and in the hand of the merchant?

Mr. THOMPSON. Yes.

Mr. HAUGEN. And is there anyone there to represent the merchant as such?

Mr. THOMPSON. It is all determined by the cotton exchange.

Mr. HAUGEN. It is all determined by the cotton exchange, and therefore the farmer and the merchant are absolutely at the mercy of the cotton exchange; he has nothing to say and has not even an appeal?

Mr. THOMPSON. No appeal whatever.

Mr. TAYLOR. He would not be interested, because he has already disposed of his cotton. The merchant Mr. Hayne refers to is the fellow that buys on the cotton market. That is what you mean?

Mr. HAUGEN. I am talking about spot transactions.

Mr. THOMPSON. I think it was this gentleman [Mr. Hayne] gave a most admirable demonstration of what took place on the cotton exchange. The cotton exchange is a barometer which should indicate the height of prices. If the cotton put into store in New York is cotton which you can take out and send to a customer you can not get prices away from the market.

Mr. HAUGEN. If this cotton was classed by inspectors—you know exactly what that bill contains?

Mr. THOMPSON. Yes.

Mr. HAUGEN. As it is now you know nothing about it; it is just whatever this exchange may determine, and it is, of course, fair to assume, they being human, that they will determine in their own favor.

Mr. THOMPSON. Oh, yes. It is fair to say this, that the exchange has been undergoing a change of spirit, and they have been careful to see that their gradings are on the right side. For instance, I would be very confident in taking out New York grading and shipping it to Liverpool and gaining a half grade anyhow.

Mr. HAUGEN. But if the New York Cotton Exchange should change its tactics to-morrow you would be absolutely at their mercy?

Mr. THOMPSON. At their mercy.

Mr. TAYLOR. Inspection at New York would not do the farmer any good.

Mr. THOMPSON. It will do this great good. If you will keep the contract up to a better price every farmer benefits by it.

Mr. HAUGEN. If every merchant knows he can get a square deal from this exchange he could then afford to give the farmer a square deal, but as it is he knows nothing about what grade is going to be given that cotton.

Mr. THOMPSON. You see, as far as the dealer's connection is concerned, the amount of cotton he ships to New York is infinitesimal; it is not a fraction of a per cent of the crop.

Mr. TAYLOR. It must go somewhere.

Mr. THOMPSON. It does not pass through the New York Exchange's hands; it goes direct from the buyer.

Mr. HAUGEN. If we provide for uniform inspection and grading, that is, so far as the power of Congress goes, and, of course, that only applies to interstate commerce, transactions in interstate commerce, be it at one time or another, that would help?

Mr. THOMPSON. The ultimate settlement of that business is with the buyer. When it comes into the buyer's hands you have got to satisfy the buyer that the cotton comes up to grade or he will not take it. If Congress could pass a law, and could be sufficiently wise and capable to establish a grade on which cotton would pass current everywhere, just as a greenback will pass current, it would be an enormous advantage, but I doubt the practicability of it. I doubt if you can do it in the New York Cotton Exchange. I do think you can keep out the bad cotton, and you can take cotton that is good and honestly weighed and honestly graded and honestly delivered, then you have your barometer working so that when the farmer sees a quotation he knows it is a quotation based upon legitimate cotton and is a fair price. If at any time during this last summer I could have been sure I could get cotton which I could as a merchant deliver to the spinners, I would have bought all the cotton there was in New York 10 times or 100 times over, because it was finding money. It was \$5 a bale below what I paid. The difficulty was you knew their cotton would not net you that.

Mr. HAUGEN. What you want is to protect the man who buys the cotton for spinning purposes?

Mr. THOMPSON. For spinning purposes.

Mr. HAUGEN. You say if you protect him you protect the farmer, because you produce a uniform price.

Mr. THOMPSON. The manner in which to insure the greatest confidence would be, if you could do it, to create a bureau composed of representative farmers and spinners to meet together two or three times during the crop season and settle the price at which the cotton could be delivered.

Mr. HEFLIN. It would be really better in the long run to have a stable price?

Mr. THOMPSON. I would like nothing so well as a stable price. You have no idea of the expense inherent in this method of the spinner trying to protect himself, the buyer trying to protect himself, and the merchant trying to protect himself in the millions and millions of bales sold over and over in New York, all representing a tremendous expense. That is really being done by people honestly and legitimately engaged in the business trying to protect themselves.

Mr. YOUNG. Here is a condition in our section of the country. A merchant usually is the buyer of the farmer's cotton. That merchant usually the night or the day that he makes the purchase sells either to the spinner direct or else he sells to some broker who in turn sells to the spinner. The cotton market opens about 9 o'clock. You can scarcely get a merchant to buy the cotton until he gets the quotation from New York and also gets a quotation from Liverpool, or wherever these quotations come from. What fixes the price each day? Is it these deals on the cotton exchange?

Mr. THOMPSON. It is like this. A big spinner is offered, we will say, 10,000 bales of cotton of the very kind of cotton he wants, if not more, and he has not got a buyer for goods that day and he does not want to speculate, so he says, "I will take that cotton on the

basis of to-day's quotation," and he goes out and sells 10,000 bales of contracts. That makes the cotton price that day. A week from then or a month from then somebody comes in and wants to buy goods. He says, "I will make you a price on the goods based upon the price of cotton to-day." He goes out and buys in 10,000 bales, and that makes the price of cotton.

Mr. YOUNG. If the exchange was regulated so that this grading business will be all right, and the price is not crushed or raised, as the case may be, to suit the immediate convenience of the members of the exchange, that will give us a price that the merchants down in Texas can rely on?

Mr. THOMPSON. Yes, sir.

Mr. HEFLIN. As well as the farmer and based upon the law of supply and demand?

Mr. THOMPSON. Based upon the law of supply and demand.

Mr. TAYLOR. How are you going to take care of the situation stated by Mr. Hayne, wherein he stated that Mr. Hill, for example, was going to make a contract in June for the Government to furnish it so many thousand yards of cotton ticking, who was not going to begin to manufacture the stuff until about the first of January? He had to know what his cotton is going to cost him on the first day of January, so that he can fix his price. How are you going to do it dealing directly with the farmer, doing away with the exchange?

Mr. THOMPSON. That is the very reason I say you should keep your exchange.

Mr. TAYLOR. Will you tell us how you are going to take care of that? Mr. Heflin evidently did not understand you.

Mr. THOMPSON. He can take care of it by a future contract.

Mr. TAYLOR. By a future contract?

Mr. THOMPSON. By a future contract for next January.

Mr. TAYLOR. How are you going to take care of it under your system? Are you proposing to have a uniform contract?

Mr. THOMPSON. A uniform contract.

Mr. TAYLOR. The same as you have a uniform insurance policy?

Mr. THOMPSON. The same as we have a uniform insurance policy.

Mr. TAYLOR. Then you want us to legislate a form of contract?

Mr. THOMPSON. Certainly. We want a form of contract and we want a standard grade fixed by some one outside of the exchange which will make certain the things that is left uncertain.

Mr. TAYLOR. You referred to certain bad cotton. What is going to become of all this bad cotton, according to your theory?

Mr. THOMPSON. If I had my way about it I would burn it up.

Mr. TAYLOR. The farmer will not be able to have a market for it then.

Mr. THOMPSON. The difficulty is this, we have had about 500,000 bales of cotton in this crop of very poor quality, no better than ordinary linters, worse, probably; somewhere between \$10,000,000 and \$15,000,000. I have not the least doubt that the existence of that cotton has cost the South not less than \$75,000,000.

Mr. TAYLOR. How do you make that out?

Mr. THOMPSON. If you have a farmer who has cattle which contract an infectious disease, it has been found the best thing a civilized State can do is to take his cattle and kill them and dispose of them at

once for the benefit of the whole State. The State buys them. What I would do, if I had the power to do it, I would make the State take over all this unfit cotton and destroy it, or let it take the same basis as linters are put on the market. I would call it anything except cotton.

Mr. TAYLOR. According to your theory the farmer would not get anything for that low-grade cotton.

Mr. HEFLIN. Mr. Taylor, talking about this low-grade cotton, this proposed uniform contract on the exchange would not prevent the spot dealer from buying this low-grade cotton, and that cotton reaching the manufacturer and being used for manufacturing horse collars and cheap mattresses and things of that kind.

Mr. TAYLOR. I understand him to say that they only want to make so many grades or so many standards and if this cotton does not come within one of those nine standards that none of the cotton shall be deliverable on contract.

Mr. HEFLIN. So far as the exchange is concerned.

The CHAIRMAN. That kind of cotton is being sold on the market anyway.

Mr. HAYNE. That kind of cotton you speak of represents possibly only 5 and certainly not as much as 10 per cent of the whole cotton crop.

Mr. THOMPSON. I do not believe it would be as much as 2 per cent.

Mr. HAYNE. I think the whole trouble to-day is that on the exchanges the price is governed by the value of this 5 to 10 per cent of low cotton. You gentlemen are trying, in the bills that are introduced, to make this 90 per cent of good cotton govern the price on the exchange, and this 5 to 10 per cent of inferior cotton will be sold on its merits, like linters, bollies, and so forth. Have I explained it clearly?

Mr. JACOWAY. Do you mean to say that now this 5 to 10 per cent of the cotton in New York of low grade, or what is termed runt, governs the price of good cotton?

Mr. HAYNE. I think it governs the price of cotton on the exchange, yes; otherwise July cotton could not have possibly sold in New York at .93; middling cotton having sold everywhere in the South at 15 cents.

The CHAIRMAN. Let me ask you if the minimum limit we fix in the House bill "lower than low middling, or lower than strict low-middling tinged, or lower than middling stained, or cotton that is less than  $\frac{7}{8}$  inch or more than  $1\frac{1}{8}$  inches in length of staple" would take in 90 per cent?

Mr. HAYNE. I think it would take in 90 per cent.

Mr. GLENNY. He said low middling. I think you misunderstood him.

The CHAIRMAN. Lower than low middling.

Mr. GLENNY. He had in his mind good ordinary.

Mr. HAYNE. I mean there are very few crops of it that would not be low middling. It would take in 90 per cent.

The CHAIRMAN. Would you suggest making the lowest limit good ordinary, or would you exclude that from delivery?

Mr. HAYNE. Well, I have stated here, but I think I would compromise with strict good ordinary.

The CHAIRMAN. Strict good ordinary?

Mr. HAYNE. That would be a half grade lower.

The CHAIRMAN. Proceed, Col. Thompson.

Mr. HEFLIN. Before you proceed, Col. Thompson, this committee that fixes the differences in the New York exchange is known as the committee on revision, is it not?

Mr. THOMPSON. Yes, sir.

Mr. HEFLIN. Here is a special sent out from New York, published in the Washington Star on February 6, 1913, I believe:

The fact that the revision committee had made no change in settled cotton differences at the meeting last night has added somewhat to the confidence of early buyers.

I gather from this special that if the change had been made we might have had a depressing effect on the market the next day.

Mr. THOMPSON. They could easily have made it depressing if the margin between middling cotton and strict low middling had been changed, for the margin between middling and strict low middling is supposed to represent the margin difference, so that it would be a matter of whether they give you middling cotton or something below it. If that is fixed so that it does not represent the market and you take it you are bound to lose money.

Mr. HEFLIN. That committee has the power to say what the price is to be the next day?

Mr. THOMPSON. That committee could change the price of cotton a half cent a pound over night.

Mr. TAYLOR. You can not prevent the market price of cotton fluctuating, can you?

Mr. THOMPSON. No, sir; it is bound to fluctuate.

Mr. HAWLEY. You are speaking against artificial fluctuation?

Mr. THOMPSON. I am objecting to the natural fluctuation being affected by unfair and undue influence.

Mr. TAYLOR. To what extent is it influenced by unnatural conditions?

Mr. THOMPSON. At times it has been tremendously influenced.

Mr. TAYLOR. That has been only temporary, has it not?

Mr. THOMPSON. Long enough to enforce settlement and bankrupt them on the board.

Mr. TAYLOR. Whom did they bankrupt through their settlements?

Mr. THOMPSON. For instance, there was one case prior to the big cotton crop here. The actual condition of things was that there was not cotton enough to keep the mills working at full capacity. The cotton was not in existence. The United States Government came out and announced that there was going to be an unusual cotton crop and predicted its going about 14,000,000 bales, the biggest crop ever known. The result was that a whole lot of people rushed in and began selling. The cotton dropped to \$28 a bale. When the actual crop developed, it proved to be 16,000,000 bales, and the prices went up.

Mr. TAYLOR. Went up or down?

Mr. THOMPSON. They went up. As soon as the big crop became certain prices went up.

Mr. TAYLOR. Why was that?

Mr. THOMPSON. That was in the 1912 crop.

Mr. TAYLOR. I should think it would be the other way, Colonel.

Mr. THOMPSON. You never can tell just what speculation can do. We suppose that prices are governed by the actual relation of supply and demand, but they are not. They are governed by what people think is going to be the relation to supply and demand.

Mr. TAYLOR. That will occur anyway where you are dealing with futures, and you can not help yourself.

Mr. THOMPSON. I am not arguing against dealing in futures.

Mr. TAYLOR. I say you can not avoid that situation if you use futures. People are bound to guess that the crop is going to be so and so, and they can not help themselves.

Mr. THOMPSON. You can not help that. That is going to have its effect, but at the time this break was coming it was a break on the sale of the old months, when it was absolutely certain the cotton was not there to deliver. It was not the price of next year that broke alone, but the price of the new crop broke. That break was because there was not anybody brave enough to go out and buy 250,000 bales of cotton in store in New York and take it, because it was known to be bad cotton, and it was expected the price would be, next year, very low, and the result was that people came into the market and the price went down and down. If the cotton stored in New York had been fair average cotton you could have taken it and shipped it to the spinner and the bears would not have dared to do what they did. They knew it would be taken up if the bulls had not been under indictment. There were not any bulls right then, because they were all expecting to go to jail. When that took place they had a dead open-and-shut proposition. It could not be checked. What finally did check it was that the big merchants saw that they could get more money by taking the other tack, and the result is that there is cotton still being delivered and will be delivered in the next two or three years based upon the 9-cent price.

Mr. MAGUIRE. I am interested to know how the Government came to make that mistake, when they estimated a crop of 14,000,000 bales.

Mr. THOMPSON. They estimated 14,000,000 bales and it turned out to be 16,000,000.

Mr. MAGUIRE. I am interested to know how they reached their conclusion.

Mr. THOMPSON. Nobody knew. It was probably made by some clerk in the office who found that there was a big increase in the acreage and came to the conclusion that there was going to be a big crop.

Mr. HEFLIN. And from general impressions about the crop?

Mr. THOMPSON. And from general impressions. I knew an office boy in Liverpool who sent an order over to New York, and it coming from a reliable firm and the people not knowing he was an office boy, executed it, and he retired from business. [Laughter.]

Mr. SLOAN. Col. Hayne suggested that the estimate was 14,750,000.

Mr. THOMPSON. The actual estimate of the Government was 14,750,000.

Mr. SLOAN. And the crop was 16,000,000?

Mr. THOMPSON. And the crop was 16,000,000. That would make a difference of only about 7 per cent.

Mr. SLOAN. That is not a very wide margin to miss it on a guess.

Mr. HEFLIN. At the present time there is not any cotton delivered on the New York market at all?

Mr. THOMPSON. Yes; every now and then.

Mr. HEFLIN. He can not afford to take that kind of cotton at any time.

Mr. THOMPSON. I do not know. I am going to take some this coming month. They have got it so devilishly far below, and they have not got anybody to buy now, and I am going to buy cotton and make the boys give it to me.

Mr. HEFLIN. Will you lose by it?

Mr. THOMPSON. I trust not; but it is something I can not tell until I get there.

Mr. HEFLIN. You can not tell until you see how bad it is?

Mr. THOMPSON. I can not tell until I see how bad it is. It may depend upon the fact that I am the only one taking it; and in that case I may be able to get by, and again I may not be.

Mr. SLOAN. Was not the Government or the department criticized for having estimated that crop as high as they did at the time they did?

Mr. THOMPSON. Oh, yes; they were criticized. Nobody knew what the crop was going to be.

Mr. MAGUIRE. Does the cotton exchange make a separate estimate themselves of the crop?

Mr. THOMPSON. Various members do. I do not think the cotton exchange does. The cotton exchange might get the consensus of a number of their people and put that out, but the cotton exchange does not itself make an investigation and an estimate based on that.

Mr. GLENNY. I would like to correct Col. Thompson on that. I do not think in New York they do that. The cotton exchange does not even put out a consensus of opinion. The cotton exchange has nothing to do with that policy.

Mr. TAYLOR. How long does the farmer who raises the cotton keep it in his possession?

Mr. THOMPSON. Very frequently he hauls it to the gin and never takes it back again. Sometimes, when he feels a little bullish, he hauls it back and keeps it in his yard for a while.

Mr. YOUNG. The rule is to sell it the day he takes it to town.

Mr. TAYLOR. Therefore, as a general rule, the farmer is not interested in the price of cotton after he has it ginned, but the prices after that somebody else is interested in? Is not that correct?

Mr. THOMPSON. That is practically correct. The difficulty about that being correct is this, that you will notice that they are offering cotton for sale now for delivery in the future, and they have got the price of the cotton for those deliveries \$4 to \$5 a bale below the curb. That is done to get the producers accustomed to the idea of low prices, so that when they start in they will start off on a low basis.

Mr. TAYLOR. Would that not happen anyway with your uniform contract? How are you going to prevent that change in prices from month to month if you are going to have a cotton mart and a cotton market?

Mr. THOMPSON. If you will pass some kind of legislation and make it possible to say to Frank Hayne he can go and buy cotton, we will go and buy it.

Mr. TAYLOR. You will go out and buy it from the merchant himself?

Mr. THOMPSON. No; I will go buy it from the cotton-exchange man. I am not fitted to buy it from the merchants, to buy the actual stuff, but I am fitted to buy up the contracts.

Mr. TAYLOR. If you, as a manufacturer, would deal in this contract, and you would deal on the exchange, and you would buy this standard contract. I know that, but that will not prevent the fluctuation in price, and it will not prevent the change in price from month to month, and it will not prevent the prices being fixed for the farmer. It will be fixed just the same. Somebody must fix the prices, and they will be fixed just as they are now, and you will be protected by your standard contracts. That is it, is it not?

Mr. THOMPSON. Since these men have the reading of the barometer and they get a true reading instead of a reading which is false. You will have a true barometer instead of an untrue barometer.

Mr. YOUNG. The man who is deceived by the untruth is the man who has not the knowledge and ability to protect himself, the farmer.

Mr. THOMPSON. And I will tell you something about the dealing in contracts. Any man who will watch the quotations in October, along about the bottom of October, will buy a contract for May delivery, will make money. About 14 times out of 16 you buy at low price in October for May delivery and you will make money before May.

Mr. HAUGEN. Does the farmer ever sell his cotton direct to the exchange?

Mr. THOMPSON. I did not understand that.

Mr. HAUGEN. Does the farmer ever ship his cotton direct to the spinner or to the market?

Mr. THOMPSON. Only in the case of a large planter. I suppose that the average farm yield is not much over 10 bales. I should think it is somewhere around 10, or 15 bales at the most. Occasionally you will find a large concern that will raise several hundred bales, who will deliver directly. But I am talking about the great mass of the people, the small man, the one-mule or two-mule man. Their cotton comes out and goes to pay their debts. One bale goes to the landlord and one bale goes to his family, and the balance goes to the storekeeper who supplies him.

Mr. HAUGEN. Under the present arrangement the cotton grower is in the same position as the grain grower. He ships it to the market, and there is nobody there to grade it for him, excepting the man that buys it, and he puts his own price and his own grade upon it. Is that the case?

Mr. THOMPSON. Yes.

Mr. HAUGEN. He has no protection whatever.

Mr. THOMPSON. No. He deals direct with the buyer.

#### STATEMENT OF MR. J. C. HILL, NEW YORK CITY.

The CHAIRMAN. Mr. Hill, give the stenographer your residence and your business.

Mr. HILL. My name is J. C. Hill.

Gentlemen, I did not come down to make a speech. I came down merely to give a lot of technical answers to questions that you might ask me. I suppose outside of Mr. Hayne that I am probably the oldest man in the cotton business in the room.



Mr. Hayne claims 41 years of experience, and I am too young a man to claim that much. I have been in all phases of the cotton business, from raising it to speculation (or gambling, if you want), and I have been dealing in spot cotton.

Some time ago I was engaged for Col. Thompson in giving him my ideas of the modification of the New York contract. While I was in process of writing that out Mr. Meadows, of the office of markets, asked me to amplify and finish the article and send it to him, which I did.

The CHAIRMAN. Who is Mr. Meadows?

Mr. HILL. Mr. Meadows is a technologist in the Office of Markets, Department of Agriculture. I finished that and sent it to him. Afterwards I got a letter from Mr. Lever asking me what suggestions and changes I would make in his bill. I sent him the letter I sent to Mr. Meadows on the same subject. I think, if I can read this letter, and my written suggestions, I will expedite the business of the day and can get quickly off my feet.

I have had everything else done to me that these gentlemen who have preceded me have had done to them, except I have not been indicted yet, and I am willing to have that, too.

The CHAIRMAN. I suggest that Mr. Hill read this letter to Mr. Meadows and afterwards the members of the committee may ask him any questions they desire.

Mr. HILL. I think I had better give you my original suggestions first and read my letter to Mr. Meadows after criticizing your bill, the Senate bill and the other bills.

The CHAIRMAN. That would be very good, sir.

Mr. HILL. These suggestions were, mind you, not to go to a legislative committee, but were prepared to go to the cotton exchange itself, to go before the board of governors of the cotton exchange.

I have been asked to state in detail, my views as to what modifications should be made in the New York contract.

I am quite well aware of the criticism these suggestions will bring, and am willing to listen to those criticisms if you really know the cotton business, and if you have no market interest to bias your views.

Personally, I think the present contract is a perfectly fair one in every way, but it takes an algebra to prove it, and those who do not know (and can not learn) the cotton business are handicapped in using the present contract. The necessity of changing our style of doing business is merely to pacify criticism, and to make the contract easier to understand than our present style of contract. The contract we have is not a vicious contract—it is one that has been slandered. It seems to me apparent that we must change our contract, and since it is so delicate a piece of mechanism, those who understand the business best should make the necessary changes rather than to have these modifications thrust upon us by those who do not know, and can not understand the many ramifications of the cotton business. My ideas are embodied in the 11 following suggestions. My suggestion is that Congress enact a simple law requiring our adoption of clause No. 1, No. 2, No. 3, No. 10, and No. 11, then let the New York Cotton Exchange voluntarily accomplish the balance of the changes. I feel quite sure that the political powers, were we to show

this sort of spirit, would be satisfied with these changes, and that these changes would add substantially to the volume of our business and materially to the character of that business.

Here are the proposed changes:

(1) Government standards.  
(2) Commercial differences to be established, if possible, by the Department of Agriculture at Washington or the Bureau of Commerce and Labor.

(3) Contract to call for an even-running delivery of 100 bales of any one grade. (However, a mixed delivery could be made, the seller paying the receiver a penalty of 50 cents per bale provided not more than a half grade above or below any one fixed grade, or a penalty of \$1 per bale if the delivery contains a variety of grades more than one-half grade away from any one fixed grade.)

(4) We should have not more than one grade on any one slip.

(5) Each bale should be separately tagged and all samples should carry a coupon on which the grade and weight and date of arrival should appear.

(6) No pro forma should be permitted, and to prevent this my suggestion is to cease trading in any month on the first day of that month instead of on the last day.

(7) After cotton has remained here one year it should not be presented again for recertification; the fact of its having stayed here that long indicates something besides grade being the matter with it, and the last owner of it should be forced to dispose of it commercially.

(8) We should build warehouses of our own, huge in size, capable of holding an immense quantity of cotton. An assessment of \$500 on each membership would do this.

(9) Let each certificate of grade also be a certificate of insurance covering that cotton at a fixed price per month during its stay in New York.

(10) Limit our deliveries from low middling to good middling, and not below middling if tinged. Limit the staple from seven-eighths to  $1\frac{1}{8}$  inches. This description covers 80 per cent of any cotton crop in any year, and our contract should not cover the entire crop; if it does we are likely to get the very least desirable portion of it.

I think that we should not disqualify more than 10 per cent of any cotton crop. The office of markets is engaged in an investigation, and I suppose you gentlemen will get the result of it and we will not. They are engaged in an investigation as to how much cotton is below seven-eighths of an inch staple and as to how much is below low middling cotton. If that investigation discloses that generally we would disqualify more than 10 per cent of the cotton crop I would enlarge that contract so as to embrace fully 90 per cent of the cotton crop. I do not speak of the linters, bollies, and one thing and another.

(11) Do not postpone for a year to begin trading in the new contract. The public are too clamorous, and we could easily trade in the new style of contract to-morrow if we wished, it only being necessary to trade in old July and new July to accomplish this.

Having read thus far, you have my views in concrete form. If you want my reasons in detail follow me into these "obsessions," otherwise you have heard enough. My idea at the moment is that

the members of the New York Exchange should bring these matters to the attention of the governing board, and that they should appoint a committee (a small, harmonious, and intelligent one) to draft these ideas into our by-laws and constitution.

The New York Cotton Exchange contract has been the matter of some discussion and much criticism over a period of years.

I gave evidence before this committee 21 years ago, gentlemen, in July, on the option legislation. That was in 1893. I do not think Mr. Glenny was there. I gave evidence before that committee, and I trust I will give the same evidence now.

Mr. GLENNY. I was there, but I did not give evidence.

Mr. HILL. This criticism is resultant from five different reasons, which I will endeavor to arrange in the order of their relative bearing on the case:

- (1) Ignorance plus politics.
- (2) Ignorance plus an incorrect market position of the critic.
- (3) Ignorance, just plain, unvarnished boneheadedness.
- (4) Ignorance plus impracticable, impossible, chimerical, revolutionary, dreamy reforms.

(5) A few actually merited criticisms due to real faults in our present system.

Politics is an incurable disease, both contagious, infectious, epidemic, and demagogic. This is useless for us to combat.

It is also useless to combat the criticisms of those who have an incorrect market position. They will be with us always.

Ignorance on the part of the layman will probably continue to exist as long as we make a contract that has to be defended in an algebraic way instead of plain arithmetical methods. But few laymen know algebra.

Our present contract, for instance, by using an algebra can be proved to be on a parity with other markets, although by simple arithmetic our market looks much lower than other markets. The necessity of using an algebra to bring our market to a proper expression is due:

(1) To a different standard of grades than those used in other places, and

(2) Our fixed differences between grades do not always coincide with actual commercial differences. Therefore our market does not always express itself as a basis middling contract, but very often, just as now, expresses itself as a basis of strict good ordinary contract.

It would, of course, simplify the problem greatly if every market in this country used the same grade standard and the same differences of value between the various grades. Can this be brought about except by wholesale adoption of Government standards of both grade and of differences between grades?

This problem is made the more complex when I state that even were we to adopt and adhere to Government standards of grades and of differences, we would still occasionally in this market have to prove by algebra, and not by arithmetic, that we were in line with other markets.

For inevitably an accumulation of cotton of questionably desirable spinning character would be lodged here unless some new method of grading cotton other than that which now exists is devised.

To illuminate this statement I will have to furnish an illustration, and this illustration I want you to carefully and intelligently absorb.

If we were, to-morrow, to send Mr. Mellette and his entire corps of trained assistants (the classification committee of the New York Cotton Exchange) all of them properly equipped with a Government type of middling cotton, into 100 various towns of the South and instruct them to match, with exceeding care, their type of Government standard of middling with a bale of middling in each of these 100 towns, and then to purchase and ship to New York this cotton, bale by bale, when it arrived there, although supposed to be identical in grade, its real spinning value would be far from uniform. In fact, the difference in the actual value, intrinsically measured between the best and the worst bale, might be fully a cent per pound, although each of them would technically match the Government type of middling cotton beyond any possible criticism. This difference in value is not necessarily, nor always, a question of the length of the staple, but it is an intangible quality called "character," the strength or the brawniness, the amount of oil retained, the propensity to waste, all being contributory to its spinning value and as hard to explain to a layman as it is for the cigar smoker to explain the occasional cigar unsatisfactory out of a box of his favorite brand.

It is, indeed, an astonishing statement to make that middling, so long ingrafted into the phraseology of cotton terms, is not a descriptive word, and defines in but a meager way that which it intends to mean. It is as meaningless in describing cotton as the words, "bay horse" would be in describing horses. The phrase "100 bales of middling cotton" is but little more accurate than would be the phrase "100 bay horses."

Suppose we had a "horse exchange" and bought and sold horses by so meager a description as mere color. It would be inevitable that in time our certified stock of horse stock would become suited to no other purpose than "soap stock."

To carry this idea further and make it plainer, suppose you should make your contract for the future delivery of horses read as follows:

For and in consideration of \$100 per head I hereby agree to deliver to John Jones, during the month of March, 100 bay horses, the basis of this price being a 9-year-old horse (middling horse). Horses of other ages can be delivered with the following additions or deductions in value: If the horse be 10 years old (strict low middling), \$5 per horse deduction; if the horse be 11 years old (low middling horse), \$10 per animal reduction, etc.

Even under these restrictions and conditions you might still catch in your delivery a lot of unbroken bronchos or a lot of spavined truck horses. Then, suppose you should go still further in the restrictions of your contract, and include the height and weight of horses as an added difference in value, making 15 hands high and 1,100 pounds in weight the standard from which additions or deductions are to be made. Then your 100 head of March-delivery horses might still bring 100 big-hoofed, hairy-fetlocked Percheron monsters, void of any speed, spirit, or action, except in Rose Bonheur's pictures. These added restrictions might prevent the delivery of some of the undesirables, but not all.

A good horse trader could take a contract for 100 bay horses in which the height was specified, the weight and color agreed upon, and make a very bad delivery, if he wished, and had no business reason for not making a bad one, for how easy would it be to gather together 100 horses, 15½ hands high, bay color, 9 years old, 1,200 pounds weight, sound of wind and limb, and bring them alongside of another 100 horses of exactly the same description, and the difference in value between the one lot and the other might be easily \$50 or \$100 per head.

A good judge of horses could, if the American Ice Co. were to employ him, take some particular type of animal best suited to pulling an ice wagon, and match it in size, color, speed, action, temperament, utility, and finally in intrinsic value, and likewise so could Mr. Mellette and his corps of assistants, were they asked to buy 100 bales of middling cotton, matching one another in color, in staple, and in intrinsic value, closely approximate such a result, but if our classification committee are compelled to confine themselves to adhering strictly and literally to matching a bale of cotton presented to them with a Government type, and they are allowed no latitude of viewing that bale cotton for that indefinable quality "character," then we may expect the professional in cotton to give the contract market the least spinnable and the least durable of his middling cotton, and to ship the best of it immediately to the mill. To continue in pleasant and profitable business relations with his spinner friend compels him to scrutinize the shipment for its character, while no such obligation exists to the unknown party who will finally take his delivery under our rules. Our obligation to protect the buyer is just as keen as our obligation is to protect the seller, and we should, so far as possible, have our cotton here delivered represent the actual value of the grade we place upon it.

Mr. TAYLOR. Excuse me, Mr. Hill; but is there not, as a matter of fact, a certain feeling between the broker and his client that the broker tries to please his client, the merchant?

Mr. HILL. Yes, indeed.

Mr. TAYLOR. That is his desire, of course.

Mr. HILL. Oh, yes; but this is still the unknown buyer who is delivering cotton to the unknown seller.

Mr. TAYLOR. On a future contract?

Mr. HILL. On a future contract; and he only has to deliver what the specifications call for.

What is true of horses is true of cotton. You can not draw a document so tight and so closely descriptive in writing that it can not be complied with and still a delivery made, literally and legally, of 100 bales of middling cotton or 100 "middling" horses, and in each instance let the delivery prove a disappointment to the receiver. If you tighten up on the description of the horses by qualifying that they are to be suited for draft purposes or for riding purposes or for the speedway; if you specify that they shall be free from blemish, well broken, etc., etc., every added descriptive word limits the liability of an undesirable delivery; and so it is in the delivery of cotton. If our contract here precluded the delivery of cotton of less than seven-eighths of an inch in staple, we would remove 50 per cent of the possibility of unspinnable cotton coming to us.

If we limit the grades to be delivered to nothing below low middling, we remove another 30 per cent of the cotton which might be criticized for its lack of character. There is, however, cotton of 1 inch or  $1\frac{1}{4}$ -inch staple with a fiber so weak that, although the yardstick would show it to be of full length, it is still far from desirable. Just how to exclude this cotton from delivery is an enigma, unless we should have all cotton passed upon for its character by some competent judge or classer whose powers were autocratic, or unless we disregard the names of all grades and have our classer class it for value, calling it worth 50 points under middling or 42 points over middling, as the case may be, and leave the price to suggest the grade. This style of doing business, however, is at the moment uninviting, since the average buyer of cotton needs some phraseology or description, as well as figures of the value, before he invests. Our contract might well be made also to exclude cotton under low middling in value. Those people who can class cotton under low middling in value, or cotton of higher grades than good middling, have learned the algebra, trigonometry, astronomy, and the calculus of the business. Am I right, Mr. Glenny?

Mr. GLENNY. Well, I suppose you are, in substance.

Mr. HILL. What I mean is that the men who can class good ordinary and strict good ordinary and the man who can distinguish between middling fair and strict good middling fair are very rare. There are very few classers who can do that.

Mr. GLENNY. Yes; but when you used the word "algebra," in the first part of your remarks, it meant something not understandable, and if you use the word in the same sense this time it does not apply to the situation.

Mr. HILL. No; I used it in the sense of a man who had fairly learned his business.

Mr. GLENNY. Then I will qualify my answer.

Mr. HILL. The men who can class cotton above or below those grades may be compared with the horse trader who has learned to tell the age of a horse who has passed his ninth year, after which there is no change of teeth. Cotton of higher grade than good middling should not be permitted in our deliveries except at a good middling price.

The Sea Island cotton crop is sold by a private treaty, likewise also cotton raised in the Delta and other sections carrying a staple of  $1\frac{3}{4}$  inches to  $1\frac{1}{2}$  inches. Extremely low grades, bollies, and linters are all treated as a proposition separate from the ordinary run of cotton receipts.

Fully 80 per cent of any and every cotton crop raised is embraced within the following description: Low middling to good middling, seven-eighths inch to one and one-eighth inches staple, and if any contract covers 80 per cent of a crop there is no reason why the other 20 per cent should not find its own market in its own way.

Another confusing trouble with our present system is that each bale is not separately tagged and classed and we are unable to separate, without great expense and equipment, the desirable from the undesirable.

Should we remedy this we would put everyone on an equal footing without any serious necessity of their maintaining an expensive spot equipment. Not only should we class each bale of cotton sepa-

ately, but we should not permit our classification committee to include more than one grade on any one slip.

Our basis price should be the price of an even running lot of one grade with a penalty assessed if more than one grade be delivered and that penalty should be large enough to induce experts to make the mixed contracts quickly become even running contracts. They would do so if the reward were large enough. You will note I suggest the contract is to call for—not demand—even running delivery. There will be plenty of professional “unscramblers” of mixed grade. As even running delivery, or an approximately even running delivery is salable in the markets of the world, at 50 cents to \$1 per bale higher than a mixed delivery, and therefore, if we make our contract express itself in an even running fashion, we will have a contract that expresses itself at 50 cents to \$1 a bale higher than it would express itself if this class were not there. It is, of course, unfair and unjust to prevent the delivery of mixed grades, but the owner of such grades must suffer the commercial penalty in our market just as he suffers it in any other market of the country. A man in the South wishing to ship cotton here would quickly learn that instead of shipping us sweepings, odds and ends, and misfits it were to his commercial advantage to ship us even running grades and to sort them at home rather than ship them up here and let those of us who accepted the mixed delivery reassort them in our classing room and tender them back in even running form. If we adopt a contract of this character, we would have specialists in mixed lots to whom we might apply for 8 bales of low middling or 13 bales of strict middling or 9 bales of this grade or 12 bales of that grade to complete our 100-bale lots, and these small lots could be secured at a very slight premium or disposed of at a very slight concession, just as 10-share lots of stock are disposed of in the big stock exchange by the specialists, and thereby fill out a mixed lot into an even running lot and no notice of delivery of a mixed lot of cotton would run through more than three houses without finding some one willing to stop it, split it up, and make an even running lot out of it to avoid paying the penalty, which prescribes 50 cents per bale on nearly even running lots and \$1 per bale on mixed lots.

The quotations published daily for southern spots is for even-running lots. Why not ours? The extra clerical force needed to class, tag, and keep track of each bale separately would not cost us half as much as our annual and continual effort to teach the public our algebra. Why not make it an easy problem in arithmetic?

Mr. GLENNY. May I interrupt you there, Mr. Hill?

Mr. HILL. Certainly.

Mr. GLENNY. You made the statement that quotations, as published on the board for spot cotton in southern markets, were for even-running lots. I do not think that is quite true, because they represent the grades as sold in that particular market, and they do not sell from the factor's table even-running lots once in a month; it is more or less the average of the table. The quotations in New Orleans, for instance, are made by a spot committee, which takes into account the average lots sold in the market.

Mr. HILL. My opinion was that they were predicated on sales that were made in even-running lots.

Mr. GLENNY. No; they are not.

Mr. HILL. You are referring to the New Orleans market, are you?

Mr. GLENNY. Yes.

Mr. HILL. Well, I was referring to certain local markets, such as Augusta, Memphis, and Savannah.

Mr. GLENNY. I think you will find the same thing true in Augusta, Savannah, and Memphis.

Mr. HILL. I do not think so. I think you are wrong.

Mr. GLENNY. I am sure I am not wrong.

Mr. HILL. I know that that was the case in 1903. I am referring to the spot quotations in Little Rock, Ark.

Mr. GLENNY. I was not speaking of Little Rock. I was speaking of Memphis, Augusta, Savannah, Galveston, and Houston. I think those are fairly representative markets.

Mr. HILL. Well, I think you are mistaken.

I think our contracts should embrace the following grades only: Low middling, strict low middling, middling, strict middling, good middling, middling tinged, strict middling, strict middling tinged, and good middling tinged.

The intermediate grades are familiar to the shipper. Our differences are so wide now that I not object to quarter grades.

The CHAIRMAN. I beg your pardon, I did not catch that.

Mr. HILL. I say that I mentioned only low middling, strict low middling, and good middling; but I think I would not object to the quarter grades, because the differences are so great. For instance, if you should include strict good ordinary in your contract, the difference between strict good ordinary and low middling is so wide—it is about 60 points, I think—the difference in value, both commercial value and fixed value.

Mr. MARSH. No; it is from 125 down to 75 points.

Mr. HILL. Well, that is too wide a difference not to have an intermediate grade.

Another delusion that some people have is that a good, big percentage of our crop is less than three-fourths of an inch in staple. This is absolutely not correct. As a matter of fact, one of the greatest faults to be found with the cotton which accumulates in New York is its faulty staple. The basis price for cotton delivered on our contract should be for seven-eighth inch staple. Cotton of 1-inch staple might (I don't say should) carry a slight premium; cotton of  $1\frac{1}{8}$ -inch staple still a higher premium; cotton of  $1\frac{1}{4}$ -inch staple still a higher premium; but better staple than  $1\frac{1}{4}$  inch only tenderable at the premium for  $1\frac{1}{2}$  inch, just as cotton better than good middling should not be tendered except at a good middling price. If you commence to offer premiums for staple you enter into a confusing contract, one that is like trading in two separate standards of grades.

Also under this head of ignorance there are more obsessions about how to determine the question of value between grades than any other one thing in the cotton trade. Some people believe that an average of the six principal points in the South would determine these differences. Such a proposition is ridiculous. As a matter of fact, many of these southern points will quote strict good ordinary daily, and not sell a bale of it for a month; or they will quote strict good middling daily, and not sell a bale of it for four months; and,



in addition to that, if these differences were to be determined by such a test, it would not be hard to take 1,000 bales in any one of these markets on any one day and widen the differences one-half cent a pound, and by the use of this 1,000 bales fix a difference of 50,000 at this end.

The inexperienced in cotton accept blindly the ideas that Dallas, Memphis, and Augusta quotations of the value of such grade are accurate; that they are a chronicle of actual transactions, and that the differences between grades are conclusive. Such an idea is preposterous. It is even questionable if the quoted price of any one of these grades is published correctly sometimes.

Bill sells Jim a horse. It is really a middling horse, 9 years old. Bill comes around to the horse exchange and tells the committee, "I sold that 10-year-old bay plug for \$100." Jim, in turn, steps in and says, "I bought a 7-year-old a few minutes ago, and paid \$100 therefor." The spot committee makes a guess, and establishes a quotation.

Suppose, however, the price, quantity, and grade should be correctly given by both buyer and seller—an impossible supposition—even then it would require a graduate in higher mathematics, also versed in cotton, to get the algebraic answer, if the trades were made in two different markets.

Mr. GLENNY. May I ask you a question at this point, Mr. Hill?

Mr. HILL. Yes; certainly.

Mr. GLENNY. If the quotation committee employed by the exchange visited, from day to day, each lot of cotton sold, they being experts, would it not remove your objection?

Mr. HILL. Yes, indeed.

Mr. GLENNY. Well, that is the case in New Orleans.

Mr. HILL. I know that is the case in New Orleans. I am speaking of the six or eight local markets settling the differences in grades, however.

The CHAIRMAN. Before you leave that point, Mr. Hill—the House bill provides that the Secretary of Agriculture shall select these eight markets and get the average of commercial differences from them; and it gives the Secretary of Agriculture no further power than as he gets those differences from those eight markets. Won't it meet your objection to that if we were to insert in that provision the words, "Or by such other method as he may devise"?

Mr. HILL. If I had to retain that part of the bill, I would certainly insert those words.

The CHAIRMAN. I understand your position.

Mr. HILL. I would leave this latitude much greater than you now have it.

The CHAIRMAN. I understand your position to be in that respect that you would leave the discretion entirely in the Secretary of Agriculture.

Mr. HILL. I would allow him to find the commercial differences in his own way. If this suggestion pleases him, all right and good; if he thinks that is the most feasible way, that is all right. But the Secretary of Agriculture has at his command 13 special agents traveling all the time. Those men alone could keep him posted twice a week, or three times a week, as to what they found as to current conditions of prices in the communities which they are visiting.

The CHAIRMAN. The addition of those words, however, would meet your criticism, would it?

Mr. HILL. Oh, yes; if that part of the bill were to be retained. Augusta middling is about equal to Dallas strict middling. Augusta strict good ordinary would about equal Dallas low middling. If, therefore, you find what the difference is between middling and strict good ordinary in Augusta it should equal the difference of strict middling and low middling in Dallas, and then you must reduce each of these to a New York equivalent before you could say our difference of value between grades was wrong.

The CHAIRMAN. Now, on that point, Mr. Hill, because it is right in line with the matter you are discussing, we have a proviso in the Lever bill reading as follows:

*Provided, That for the purposes of this section such values in the said spot markets based upon the standards for grades of cotton established by the Secretary of Agriculture.*

In your judgment, would that proviso have the effect of making these various spot markets adopt the Government standard, or would you make that compulsory?

Mr. HILL. I think they would quickly adopt it themselves. A man would find that it was so difficult to trade in the old standard, even where you leave the old one, the Government standard would be so popular that the old standard would die of its own inertia.

The CHAIRMAN. May I ask Mr. Marsh if he agrees with that opinion?

Mr. MARSH. I do not agree with that, Mr. Chairman, for the reason that there are a considerable number of southern markets in which the vast preponderance of business is export business. Now, it is inconceivable to me that the exporters who dominate those markets should be willing to have in the same market two different standards of cotton and two different sets of differences—two difference sets of quotations for the different grades of cotton.

The CHAIRMAN. Mr. Glenny, what is your judgment about that?

Mr. GLENNY. I think it would go a very long way toward the adoption of the Government standards of classification. I think the prestige given a market of that character would be sufficient to induce them to do it, and it really makes no difference to a market which standard is used, so long as they know what that standard is; and the advantage of a universal standard, particularly as relating to future markets, is inestimable, for the reason that the man in the far country, or the man in the backwoods, or in any place, can at all times have an absolutely accurate knowledge of the basis of the price of that future market; and I do not think there is anything that is more important than the adoption of the Government standards and, if possible, a law to compel the use of them.

The CHAIRMAN. This is such an important matter, Mr. Hill, that if you will—

Mr. MARSH (interposing). May I add one word, Mr. Chairman?

The CHAIRMAN. Yes; Mr. Marsh.

Mr. MARSH. In what I said I was proceeding on the assumption that there was to be no legal compulsion.

The CHAIRMAN. Yes; I understand.

Mr. MARSH. That it was to be left to the business advantage of the markets, so to speak, to bring about this adoption of the Government

standard. No one is more in favor of the uniform standards than I am, but I do not believe that business considerations alone will make markets which are predominantly export markets run two sets of standards and two sets of differences, as they would have to do if they were to adopt the Government standard.

The CHAIRMAN. I am trying to get, if Mr. Hill will permit a further interruption, the judgment of you gentlemen, who are familiar with the trade, as to whether or not this proviso which I have read would be voluntarily accepted by the trade; whether the Government standard, in view of that proviso, would be voluntarily accepted by the trade. If not, it becomes the duty of the committee, in my judgment, to make the acceptance of those Government standards in the spot markets compulsory if we can do it constitutionally. Mr. Webb, you are a very large handler of cotton; what is your judgment as to that?

Mr. WEBB. I think that the cotton merchant would adopt it right away.

The CHAIRMAN. Voluntarily?

Mr. WEBB. Yes; voluntarily, without any legislation. But of course a cotton merchant gets his quotations, or his offers, from all over the world; he might get an offer from Liverpool or from Havre or from Bremen of a certain price for cotton. Well, I could not sell them that cotton on the Government standard, because their grade would be different. I would sell them on the Liverpool classification. But we could do that all right. I know what the Liverpool classification is; I would sell him on Liverpool classification. But in business done in America we could sell them on the Government standard, and have that as a standard, and wire it out to that point and sell nothing but the Government standard. Of course with the foreign countries we would have to sell on the foreign classification.

The CHAIRMAN. Mr. Parker, will you give us your views?

Mr. PARKER. I agree with Mr. Hill and Mr. Glenny. Going a little further, my own judgment is that if the Government adopts a standard and makes it compulsory, as I think they should, Liverpool will come to the United States Government standard, and you would have in a very short period of time only one standard along the whole line.

Mr. GLENNY. Mr. Chairman, I used the word "universal."

The CHAIRMAN. I know you did, Mr. Glenny, and I think it is a very good coinage.

You may proceed, Mr. Hill.

Mr. HILL. I will say that a great many of these types are for export. We sell it there by types instead of by grade, and we standardize by a mark, and we get repeated shipments for it. At the beginning of my statement I mentioned impracticable, impossible, chimerical, revolutionary, dreamy reforms as a text. The number of impracticable ideas and the number of suggested reforms is so great and so far at variance with the conduct of the cotton business that it is hardly worth while to disillusion by argument, if such were possible, the originators of these various ideas. The most foolish of them, to my mind, are these, and they will serve as an illustration for the many others:

First. The trading in and the delivery of a single specific grade on our contracts.

Second. The southern warehouse or other scattered warehousing plan.

Third. Determining by spinning test the difference in value between low middling and middling or between any other two grades.

These might be enumerated indefinitely, but these three will serve the purpose of illustrating the necessity of all of us getting together on some feasible and not infeasible plan.

As regards trading in a single grade for a stated month of delivery, such a scheme has so many objections that it is rather wonderful that anyone should have such a vision. To trade in 9 grades and in 12 months would mean trading in 108 different options. It would be next to impossible to surmise in September what grades to buy or to sell for December delivery. Except for the most staple grades, no one would dare undertake any trading. Who would have temerity enough in September to sell 100 bales of middling fair or 100 bales of strict good ordinary to be delivered the following January? And even were we to wait until later in the season and find ourselves long on one of these outside grades and sell a hedge against it, we would not dare to do other than tender the cotton on contract, no matter how favorable a price was offered us by the mill.

The CHAIRMAN. How much strict middling do you suppose there is in stock in New York to-day?

Mr. HILL. About 1,500 bales.

The CHAIRMAN. That many?

Mr. HILL. Somewhere between 1 bale and 1,500 bales. It is not above 1,500 bales.

This idea which is embodied in the Smith bill—and no serious-minded cotton man can predict any other thing than chaos when we attempt to trade under its provisions. The market would have to bid up or offered down \$2 to \$3 per bale at times to find some one who would take the other side of a trade in an odd month or an unusual grade. Such a contract is wholly impossible. There is no farm in the United States so large that it could safely guess to-day and specify the delivery of 500 bales of any one even-running grade for delivery next October. Specified grades, naming single grade only, are only possible to those who handle large quantities of cotton, and they even often come to grief because of such promises, and there are numberless instances in the career of every spot handler that would illustrate this. I have one in mind that serves the purpose well indeed.

In 1897 or 1898, when I was a cotton handler in western Arkansas, I sold a Providence (R. I.) concern 1,000 bales of strict middling  $1\frac{1}{2}$ -inch cotton, to be shipped 250 bales per month in October, November, December, and January. The first two of these months that grade and staple were plentiful and easy to obtain. The hedged profit on the transaction appeared to be about \$1 per bale, and the buyer did not care to buy during October and November the described cotton and carry it until December and January, since the carrying charges would absorb the profit. Suddenly that particular grade became almost unobtainable in his immediate territory. He tried to persuade the spinner to cancel the contract and buy it elsewhere, but the spinner played "Shylock."

The buyer was compelled to buy 100 bales of "average receipts" to secure 10 bales of the desired quality, and, as a matter of fact, desir-

ing to fill his contract, retain the business of the mill and keep his commercial word good, this buyer was compelled to buy 11,000 bales of cotton before he found enough strict middling of  $1\frac{1}{8}$ -inch staple to complete the remaining 500 bales of this order. This 10,500 bales of various other grades were a dead weight on his hands, hard to sell, expensive to carry, and before he was able to finally dispose of it a loss of \$22,000 had been incurred, and this loss would never have occurred had it not been necessary to secure this 500 bales. This loss therefore figured nearly \$50 per bale against this 500 bales of "Shylock" cotton, and the Smith bill proposes nothing more or less than a "Shylock" contract for either side who wishes to enforce terms when those terms are hard to enforce. This loss was made when cotton was only 6 cents per pound. In other words, I lost on the 10,500 bales of cotton worth 6 cents a pound \$22,000; I lost \$2 a bale on 10,500 bales; but as a matter of fact that should have been distributed on the last 500 bales, which was more than the cotton was worth. And that loss was made without any unnecessary speculative risks, but merely a series of misfortunes such as loss in weight, necessary shifting of hedges, plus carrying charges on the undesirable remnant of a big crop, which is always hard to sell.

And before I leave that subject, I may say there is a "Shylock" spinner in this room who has a contract with a spot firm for the delivery of middling to him. That spot firm can not deliver the middling; but they could deliver strict middling to him. The spinner says, "I want the middling," and the spot firm says to him, "Won't you take strict middling?" But the spinner says, "No; I will not accept strict middling." And in all probability he will get a strict middling, without a settlement of the difference, and therefore he smiles.

Mr. PARKER. No; you are wrong on the transaction to which you are referring.

Mr. HILL. Well, I do not know; the contract may have been settled by now. A couple of weeks ago you had some middling cotton due you.

Mr. PARKER. Yes; I had some middling cotton due me from McFadden & Co., and I saw no reason why I should take off grades from them; and Mr. McFadden found a little difficulty in getting it, and I did not hesitate to tell him that I thought it was necessary to get middling cotton or settle on the difference.

Mr. MARSH. May I interrupt a moment, Mr. Chairman, to call attention to an important point?

The CHAIRMAN. Yes.

Mr. MARSH. In all these transactions a great deal of emphasis is laid upon spot cotton, and everybody talking about spot cotton means middling cotton; and one of the greatest sources of complaint against the cotton exchanges is that their contracts do not reflect the price of middling cotton. Now, here you have a visible and specific illustration of the fact that there is not any middling cotton; that the great firm of McFadden & Co. can not get any middling cotton to fill that sale.

Mr. PARKER. Begging my friend's pardon, I will say that I can get for McFadden & Co. in 15 minutes 10,000 bales of middling cotton if Mr. McFadden will pay for it; but Mr. McFadden can not get it at the price he has set on the New York Cotton Exchange, where he

had, by his power to depress the price by selling cotton which he did not have, put the price below its commercial value. But if he wants to buy 10,000 bales of middling cotton, and is willing to pay the price that the southern buyer is paying for it, he can get it in 15 minutes; but he will not get it on the basis of the New York price.

Mr. HILL. I do not know what the supply of that grade is in the South.

Mr. HAUGEN. Why should not those who are operating on the New York Cotton Exchange be made to pay exactly what those dealing in spot pay—exactly what Mr. Parker is demanding?

Mr. HILL. That is exactly what your new contracts are to require.

Mr. HAUGEN. No; there is to be a variation—mixed lots.

Mr. HILL. Well, you buy mixed lots of spots.

Mr. HAUGEN. As I understand, you buy a certain grade of cotton and then the man who sells can deliver any one of the 10 grades.

Mr. HILL. Well, the merchant in cotton must have something for assorting it. The farmer comes into the store and has two bales of cotton on his wagon, and the merchant must have something for assorting all of the cotton which he buys.

Mr. HAUGEN. Well, if I sell cotton it is up to me to do the sorting, the same as the man who is dealing in spot.

Mr. HILL. You must make a profit or not continue in business.

Mr. HAUGEN. This is not a matter of profit.

Mr. HILL. They are absolutely identical, the spot and the future.

Mr. HAUGEN. Well, suppose he has a contract to deliver a certain grade of cotton; he says he has got to have that grade or nothing. Now, the contracts he has on the cotton exchange reserves to the seller the right to deliver any one of the 10 grades.

Mr. HILL. Mr. Parker paid a premium to that man. And so, if we make the even-running phraseology, as I suggest, in this contract, you will have a contract exactly similar to the one of Mr. Parker.

Mr. HAUGEN. You are against the delivery of mixed lots, are you?

Mr. HILL. I am fixing it so they can deliver mixed lots, but pay the penalty for doing so.

Mr. HAUGEN. Yes; but that is not in accordance with the bill that is before the House.

Mr. HILL. They have not made that amendment yet.

Mr. HAUGEN. But you suggest that amendment?

Mr. HILL. Yes; I suggest that amendment. Let us suppose some buyer in Columbia, S. C., should sell a hedge against his holding of 100 bales of strict good middling. Let him sell 100 bales of December strict good middling. Suppose during the month of November some mill in his own neighborhood should offer him a full price for his spot cottons, and he, knowing that he had their full value, should attempt to cover his hedge. He would go into the market and bid for December strict good middling delivery, and it might be that he would bid the market up a full 100 points before he found a seller, and even that seller might prove to be the very man who had in turn bought this specific list of cotton from the mill and would bring it here for delivery on contract. Our object and mission in the commercial world is to furnish a market for hedging purposes that is at least stable, and if we are to have a stable market for the delivery must not be so exacting and so specific as this, for if it is there can be no doubt but that some anxious bidder for strict low

middling, December delivery, will at once and the same time meet in the ring some anxious seller of December middling delivery; and since neither of them can trade with the other, the man who is buying strict low middling would have to pay more for it than the other man was able to sell his middling for. This plan is so thoroughly infeasible that it is useless to argue too much or too long about it. Instead of making our market a broad one it would annihilate it. In some years strict good middling cotton is plentiful, and in others strict good ordinary. In either year the basis contract covering the delivery of a number of grades is the ideal contract.

As regards the southern warehouse proposition, or any other warehousing plan outside of our own immediate espionage, it needs no argument against it, to those who are acquainted with the cotton business in its present form, than that we have not eyes enough now to cover the system of warehouses in New York. To those who wish a more specific statement of reasons against it, a simple illustration will serve. An incorrect delivery costs too heavily.

Suppose we should adopt the southern warehouse system and include therein a warehouse at Montgomery, Ala.; employ in that warehouse, at a salary of \$1,800 or \$2,400 a year, a chief manager or classer, or whatever title you choose to give him. This man would be the receiving agent for the New York Cotton Exchange, if not its classer. His word for weight and grade would be the last one, or, if you prefer, his word of weight the last one and his shipment of samples to us would make them class it here. In that event we could substitute samples which would serve the same purpose as well as classing it himself. The argument then is this:

Suppose the present differences between grades existed. Suppose I should have 1,000 bales of low-middling tinged in Montgomery, Ala., that I wanted to put on New York contract. The difference between calling this cotton low-middling white and low-middling tinged would be \$8.75 per bale. Suppose, by personal argument, barroom persuasion, or the coin of the realm, I could persuade this Montgomery, Ala., warehouseman or classer to call it low-middling white instead of low-middling tinged. My profit would be \$8,750, and I could well afford to pay him a year's salary for his moral consolation and the poor eyesight. It would be very easy for him to persuade himself, and possibly others, that it was mistaken judgment.

If a man is going into the cotton business, if he is going to take delivery of any quantity of cotton, he does not want it in scattered localities. He wants it where it is under his own jurisdiction, and where he can, if he desires, look at each bale before he withdraws it from the New York Cotton Exchange, whose guaranty only follows it as long as it is in their custody. He does not wish to take his chance in shipping the cotton out of Montgomery, Ala.; and even if the Montgomery, Ala., man were scrupulously honest and thoroughly competent the fear that he might become incompetent or that he might be persuaded into dishonest methods would always make a Montgomery delivery less desirable than a New York delivery. That being the case our contract would always be questioned, and the method of questioning it would be to make the price cheaper. If we want a warehouse system, and the proper warehouse system, let the New York Cotton Exchange assess its members \$100 or \$200, or

even \$500 each annually, and build therewith a huge warehouse and go into the warehouse business. Let their classification committee have its officers in this warehouse superintending the inspection and the handling of each bale of cotton. Let the New York Cotton Exchange cover the insurance on all this cotton in their own warehouse and make a profit on the insurance.

It is a fatuous idea to imagine that we could scrutinize the weight and grade and handling of cotton in the scattered warehouses of the country. There are so many arguments against the southern warehouse system that it is useless to present them all. Suffice it to say, that when we begin that sort of business our contracts will become so undesirable that none will want them.

The premium for dishonesty would be so large, the profit so great, the suspicion that dishonesty might be practiced so intense, that everyone would fear all southern warehouses.

Mr. HEFLIN. Can not the committee on revision, which fixes the differences on the cotton exchange, do that very thing now?

Mr. HILL. They could, Mr. Heflin, but they are too honest a lot of men to attempt a thing of that kind. They are performing their service without any compensation.

Mr. HEFLIN. Well, do you think that this man you would have at Montgomery, Ala., would be of such a character that you could induce him to do such a thing?

Mr. HILL. You would have so many of them at such a small salary that it would be a great temptation.

Mr. HAWLEY. If all of them are honest they would not do it.

Mr. HILL. No.

Mr. HEFLIN. Is it not reasonable to suppose that you could tempt this man on this exchange as well?

Mr. HILL. No; they are subject to the scrutiny of the whole commercial world. Classing cotton is merely a question of judgment. If I were to attempt to class cotton when my stomach was out of order I know that I would make a signal failure of it. You can look at cotton over this shoulder [indicating] and then look at it over this shoulder [indicating]; and it would appear different to you.

Mr. HEFLIN. You heard Col. Thompson's testimony before this committee, did you not?

Mr. HILL. Yes; but I did not entirely agree with him.

Mr. HEFLIN. You heard what he said about mistakes in the grading, but that he went back to the man and admitted it—an exchange operator—and then they took it up to this higher authority and they would not admit that they had made a mistake.

Mr. HILL. I will explain that by showing my own attitude, when we came to our February revision this year. I have always been an advocate of commercial differences since 1898. I was thought crazy at that time, but there are more people who favor it now. But when we came to this February revision in New York we had a stock of cotton reasonably good in grade. Immediately after that revision took place I began to see strict middling and middling disappear, and in its place low middling and strict good ordinary. And I imagined that our differences were not wide enough; that we had not gone far enough. As a matter of fact, however, I think to-day that we had gone too far; I think our differences are too wide.



The CHAIRMAN. In that connection, is it not a fact that in very recent months, and in very recent weeks, an attempt has been made to influence this committee on revision?

Mr. HILL. Not that I know of. You are confusing the revision committee with the classification committee.

The CHAIRMAN. Yes; I mean the classification committee.

Mr. HILL. That I could not tell you, either; but the revision committee made a mistake. I am calling it that, although others phrased it differently in 1906. They have made mistakes since then and will doubtless make mistakes again. Had I been left the sole power of settling the differences between grades in February, I would have made a very serious mistake; and so will any other man, for a large period of time.

The CHAIRMAN. Is it not a fact that a very large dealer has made a protest against the grading of cotton in New York?

Mr. HILL. I heard that statement brought out here.

The CHAIRMAN. Do you know anything about that?

Mr. HILL. No, sir.

The CHAIRMAN. Had you heard anything about it in New York?

Mr. HILL. I have heard it talked about there.

The CHAIRMAN. Is it a pretty well confirmed rumor in New York?

Mr. HILL. I can not answer as to that.

The CHAIRMAN. I understand that Mr. Rice is a member of that committee; I will ask him.

Mr. RICE. I am not a member of that committee. But there is no secret about that matter at all. Practically all of the spot people in the New York market have thought for some time past that the inspection was too rigid; and every spot firm in the trade, not only in New York but in other sections of the country, such as Norfolk, Va., and other places, complained to the board of managers, of which I happen to be a member, about the rigid inspection, and rather suggested an investigation of the inspection bureau. The board of managers refused to make any.

Mr. PARKER. As a matter of fact, Mr. Rice, you did not correct that George McFadden & Co., who are supposed to have been very long of March and short of May, wrote to your committee, about the middle of March, insisting upon the change of the classification.

Mr. RICE. Do you mean to the board of managers?

Mr. PARKER. Well, to the board of managers or the classification committee.

Mr. RICE. The letter was written to the board of managers. I will not say that they insisted on a change in the classification. George H. McFadden & Bro., Stephen M. Weil & Bro., Hopkins, White & Co., Robert Moore & Co., a number of firms from Norfolk, Va., Woodward & Stilwell, Hannigan & Vogelsheim & Co., all wrote to the board of managers complaining about the inspection being too rigid and saying that we were rejecting good cotton. The board of managers immediately acknowledged receipt of the communications, and felt that there was nothing that should be done.

Mr. HAWLEY. Will you explain what you mean by being too rigid?

Mr. HEFLIN. What grade of cotton did they complain you were rejecting?

Mr. RICE. That they were too rigid in enforcing a rule for sand, for one thing.

Mr. HAWLEY. By being too rigid you mean they classed the cotton too low?

The CHAIRMAN. No; too high.

Mr. RICE. Too high. That was the complaint of a number of people who were trying to tender cotton in New York, and there were something like 37,000 or 40,000 bales rejected.

The CHAIRMAN. Is it not a fact that the president of the exchange, rather than himself permit the change suggested by the gentlemen, threatened to resign his position as president of the exchange?

Mr. RICE. I can not say as to that; the president of the exchange is here.

Mr. CONE. No, sir; it is not true.

The CHAIRMAN. I asked the question because I wanted to bring out the facts.

Mr. CONE. No, sir; it is not true.

The CHAIRMAN. That would be to your credit, if you had done it.

Mr. RICE. I will say that the president of the New York Cotton Exchange very properly took the position that the work of the classification committee at the time was something that he should not interfere with.

Mr. HEFLIN. What else was there besides sand?

Mr. RICE. Bollies and machine cotton, and a great many other things that the cotton was rejected for.

Mr. HEFLIN. Bollies and machine cotton and sand.

Mr. RICE. And too much leaf and dirt and dust.

The CHAIRMAN. All right. Mr. Hill, you may proceed.

Mr. HILL. I will state for Mr. Hefflin's benefit, that the New York contract is not always undesirable because of low grades. I have seen it undesirable because of high grades. You asked a question of Col. Thompson that I will answer while I remember to do so; as I think Col. Thompson answered it incorrectly.

You asked him if cotton did not remain there in New York from three to five years. I have been in the cotton business since 1887, and I have never known that condition to exist, although I have always known the criticism to exist. Last fall our stock of cotton was down to about 7,000 bales of cotton in New York. And the cotton we have certificated since then—we have certificated 88,000 bales, and there is a stock of cotton of 127,000 bales of which has come in since October.

Mr. HEFLIN. Do you mean to say that the cotton comes in from season to season?

Mr. HILL. Yes, sir.

Mr. HEFLIN. And none of it is held over from one season to another?

Mr. HILL. Very rarely.

Mr. HEFLIN. Now, in your classification room at the New York Exchange, the sample room where you have various samples around the wall, do you not keep samples there that you go by that you have had for years and years?

Mr. HILL. We keep the types there.

Mr. HEFLIN. And you judge this cotton coming in from time to time by these types that you made years ago?

Mr. HILL. Yes, sir; and they are just as good to match cotton by—it is just as easy to match cotton by them now as it would be to

match a blue ribbon that was cerulean blue 15 years ago, and which would still be cerulean blue if it had not faded.

The CHAIRMAN. All right; you may proceed, Mr. Hill.

Mr. HILL. Another impracticable scheme, with which even the Government itself at the moment seems to be obsessed, is the idea that you can determine by spinning tests the difference in commercial value between low middling and middling, or between any other two grades.

In the first part of my statement I told you that 100 bales of middling cotton collected at 100 different towns showed a difference in value amounting to as much as \$5 to \$7 per bale between the best and the worst. If this be the case how much larger range of difference is true with the faulty grades, like low middling and strict good ordinary? As a matter of practical common sense the answer to this problem will be found in their endeavor to determine by a spinning test the difference in value, for the very reason that the first test between middling and low middling will give one answer, and the next test an answer radically different, and it will become obvious that no fixed difference can be determined upon in this way.

Fixed differences in values between grades have got to be determined, just like the value of the cotton itself has got to be determined, by the supply and demand in those particular grades. There are years when I have sold low middling within one-eighth of a cent of middling, and I have sold good middling at one-eighth of a cent above middling.

Mr. JACOWAY. You have had a good deal to say about the character of the cotton. How do you account for that?

Mr. HILL. Difference in the character of the seed; difference in the character of the soil. Take your own county, Yell County, Ark., it has an entirely different cotton around Dardanelle from the cotton produced around Oden, and they are only 20 miles apart.

Mr. JACOWAY. They are only 15 miles apart.

Mr. HILL. And it is on account of the character of the soil.

If it were possible to determine the fixed differences in the way those parties propose, then it would be logical that low middling cotton and good middling cotton were worth just exactly so many points apart, not only for this crop, but for all time and all eternity, for the simple reason that if this spinning test could mark mathematically the fact that low middling cotton showed 50 more pounds of waste than middling cotton did, then it would merely mean a difference of 50 pounds per bale between the two of them as an established fixed difference in value for all time.

Even were this true it would still be necessary to persuade the spinner to use low middling—some of them have not the machinery to clean and are not equipped and would not be able to use that grade at any price. The law of supply and demand governs the difference between grades just as it governs the price of the middling grade, and in low-grade years differences will always be wide, in high-grade years narrow.

I will now discuss pro forma contracts.

Our contract is known actually and politically—note the distinction—as being a “seller’s contract.”

The greatest favor we extend the seller is to permit him—unprepared—to make a delivery and compel the buyer to pay for it and be prepared.

A pro forma bill does not enumerate the grade of the cotton. The buyer must wait for this upon the pleasure of the classification committee.

That committee is not an expensive form of labor, and, regardless of the criticism it will provoke in so stating, I will make the statement that I can hire more classers who really and capably know how to class cotton in Waxahachie, Tex., in two days' search than can be found in New York City in six months.

I am not pretending to criticize the force we have, but I do criticize the New York Cotton Exchange for not adding to their present equipment enough force to keep up with the deliveries; and the conditions must be unusual, indeed, when with the whole trade to draw from this department can not keep up with the deliveries.

There has been no recent rush of cotton to this market; nevertheless Pell & Co. took up for a customer in Indianapolis 400 bales of cotton on January contracts and were compelled to take a pro forma delivery therefor, and Pell & Co. were until February 17 before they learned the complete classification of this 400 bales.

Our Indianapolis customer was rightfully indignant, and our own fair-mindedness should see his side of the proposition. There is a principle in law, "caveat emptor"—let the buyer beware; and another, "caveat venditor"—let the seller beware.

No man in any other line of business will pay for an article without a complete invoice therefor, and it is all well enough for us to hide behind the fibers that might occur on the last day of the month, or the barges that might sink in the bay with our cotton intended for delivery aboard, or the steamship that failed to arrive in time for delivery. These are all to be answered in one sentence. Start them in time so you can duplicate, if necessary. If you don't get them here in time, you lose; if the buyer does not get the money from the bank on time, he loses.

The number of times the barge went down in the bay, or when fire interfered in the past 20 years, is about equalled by the number of colts foaled by Bob Reese's mare mule. The amount of interest paid out by receivers of cotton and fire insurance, storage, and other charges which accumulated on pro forma deliveries would build a substantial navy for the Mexican heterogarchy—while the receivers of this cotton were waiting to find just what they had.

I look on these last-minute deliveries like I look on death-bed repentances; I don't pin much faith in their sincerity. To remedy this and to keep our market on as near a uniform keel as possible I suggest:

First. No pro forma delivery. Let the seller get busy or cover his shorts—just as a long would have to get busy and sell out his long cotton if he couldn't raise the money.

Second. Prevent trading in the current month. In other words, let the trading in March cotton end with the last day of February. Then those who are long must take it. Those who are short must deliver. The seller has the option of delivering during any day of the month, with the usual three days' notice. The buyer must take

the cotton, if he wants to get rid of it, then let him dispose of it commercially or deliver it during the next month.

This plan would prevent two things—heroes and suckers. It would prevent some man bidding the current option 3 or 4 cents out of line with the rest of the market on the last day of the month, when he was sure no one could get any more cotton into the market.

It would prevent the suckers following the shark into muddy waters and having their tails bitten off. Every month that comes these camp followers “beg a place,” or stand short up to the last day, merely because they have been caught on the line and will not wriggle off, and they want to trade in March on March 31—when the cows have all come home and have been milked—and they are “hoisted on their own petards.”

Those who want to trade in March cotton should make up their mind before the last day of February whether they want to take the cotton or not, whether they can deliver it or not.

Mr. WEBB. Suppose in October or November, I am buying cotton every day from the farmers in November, when the cotton is moving, and I can not trade in that month; I have got to carry that November cotton into December. It is going to work a hardship on the farmers, and I have got to carry—

Mr. HILL (interposing). You can use January or March to hedge.

Mr. WEBB. I have got to carry that cotton until then before I can deliver it. I think it a good thing, so that—

Mr. HILL (interposing). I do not think you catch my idea. You have sold December to hedge; you have all the month of December to deliver it in.

Mr. WEBB. What I want to buy in December is a December contract; if I buy on the 5th day of December I have sold against that in December. Suppose I have to carry that until January, it works a hardship on me.

Mr. HILL. I hate to give away professional secrets, but you could get a short notice at any time. You could sell a short notice.

Mr. GLENNY. I might answer that here and say, Why should you be compelled to sell a depreciated contract? A short notice would have—

Mr. HILL (interposing). A five-point concession.

Mr. GLENNY. Why should you lose those five points?

Mr. HILL. In order to avoid performance.

Mr. GLENNY. We do not have to have performance at all.

Mr. HILL. I do not know; it seems that we do in New York.

We could commence to-morrow, if we wished, trading in any new-style contract we could devise. The Board of Trade of Chicago does it almost every year. We could trade in new July or old July, but since the new contract would be so much more popular with the public than the old style, the old would quickly ring out or narrow down to the long siege people. My reason for suggesting this is that if we are going to go overboard into new ideas and new contracts, the sooner we accomplish the undertaking the sooner we destroy this unfavorable criticism and the sooner we get our new bearings in the new sea of commerce and find its reefs and derelicts.

Each one of these suggestions should make our contract itself higher than it now does when compared with southern spots.

Government standards would add 20 to 50 points; commercial differences would add 10 to 50 points and at times much more. Even running delivery fully would add 20 points or more; low middling to good middling clause would add 20 points or more; and seven-eighths to 1½-inch clause would add 20 points or more.

In other words, our contract market would hang the picture about 100 points higher on the wall than it now hangs.

Now, it does not make any difference where you are going to hang that picture, you are not always going to make money. There is no contract that can be devised by all the aggregated ideas in this room that is going to make any of us just right on the cotton market. You have got to do that with a knowledge of production and consumption; and 99 people out of 100 think it is production that sets the price. It is not production that sets the price, it is consumption 99 times out of 100 that sets the price.

The CHAIRMAN. You are a philosopher, Mr. Hill. I wish you would distinguish, if you can, the difference between a legitimate speculator and an illegitimate speculator or a gambler on those exchanges.

Mr. HILL. I do not recognize any of them as an illegitimate speculator. I think everyone performs his function.

The CHAIRMAN. Well, you take a clerk in Columbia, S. C., who buys a contract for 100 bales of cotton. He has no more idea than a rabbit, and no more basis for judging on that proposition than a rabbit. Would you regard him as a gambler pure and simple, just as much as if he were betting on a horse race?

Mr. HILL. Yes. If you ask me to differentiate between speculating and gambling, I should say that gambling is a game of mere chance.

The CHAIRMAN. Yes.

Mr. HILL. Or that in a poker game, a little child could fill a four flush just as well as the most experienced gambler, provided it is an honest game. But speculation is a fore knowledge, or an endeavor to learn and apply the facts; to assimilate the laws of supply and demand; to know what the demand is; to know what the supply is. Col. Thompson talked to you about that. He spends \$30,000 a year trying to find out what the cotton crop is. I would rather spend \$500, if he would let me have my way, finding out what the demand is. Any of us could guess what the cotton crop is. We have many sources of information as to that.

The CHAIRMAN. Well, would you regard the transaction of the Columbia clerk as a gambling transaction?

Mr. HILL. From his viewpoint, I would.

The CHAIRMAN. Yes.

Mr. HILL. But from the point of view of the market, he performs a similar service to that performed by Mr. Pierce in Dardenelle, Ark., when he gives an order to the Lesser Goldman Cotton Co., in Little Rock, who reports it to their St. Louis house, which sells hedges against it which meet the contract of the Columbia man.

Say the Columbia man arrived there at the cotton exchange at 10.45 o'clock with his order to buy cotton, but the Lesser Goldman Co. was there to take it. Some floor trader was there between 10.45 o'clock and 11.45 o'clock. The Columbia man offered his 100 bales at 12 cents a pound, and could not find a buyer, and he offers it at

11.99. The floor trader takes it at 11.99. One hour later Lesser Goldman & Co. take the other side. They make the trade with the floor trader, and the floor trader has made three points. I think the floor trader is very necessary. I think the Columbia man does himself an injustice, but he is helping the community in which he lives, and the Dardenelle, Ark., man is helping the community in which he lives.

The CHAIRMAN. I do not know that that is a question of importance; and I want to ask you to criticize the bill section by section.

Mr. HEFLIN. I would like to ask Mr. Hill a question. Do you not think that we ought to compel delivery of cotton on some character of contract on the exchange?

Mr. HILL. Ought to compel the delivery? No, sir.

Mr. HEFLIN. You think that the exchange ought to be permitted to speculate and deal as they please and not have to call on the farmer for cotton to fill the contract?

Mr. HILL. Not imperatively. Your experienced dealer ought to make a contract to this cotton of such a desirable nature that people themselves would demand it. We should have a contract by which it would be so easy to buy cotton that Mr. Parker, who is a spinner, could come to that market and say, "I want 5,000 bales of cotton. To secure that 5,000 bales of cotton I will buy 10,000 bales of cotton, and will sell 5,000 bales of that."

Mr. HEFLIN. To supply his demand through the exchange?

Mr. HILL. To supply his demand through the exchange. The commission is insignificant. Mr. Parker buys 10,000 bales. If we have it separately classed and tagged he could go through it and cut out the cotton he wants as quickly as he desired. But as we do the thing now, we take the deck of cards and drive a rivet through it, and say: "Here is your deck of cards; get your hand out of it. You can not separate those cards; you must take them all or none."

Mr. HEFLIN. Now, where they do not have to deliver cotton?

Mr. HILL. But they do have to deliver the cotton.

Mr. HEFLIN. I am talking about calling on somebody for actual cotton?

Mr. HILL. You can call on them for actual cotton; that is compulsory.

Mr. HEFLIN. But thousands and tens of thousands of contracts are settled through the cotton exchange, day after day, where no cotton except that cotton on the circle that is there for tendering purposes, is used. You agree to that, do you not?

Mr. HILL. No, sir; you have a mistaken idea as to trading.

Mr. HEFLIN. You think I have a mistaken idea about trading?

Mr. HILL. Yes.

Mr. HEFLIN. How much cotton have they in New York now?

Mr. HILL. One hundred and twenty-three thousand bales.

Mr. HEFLIN. One hundred and twenty-three thousand bales?

Mr. HILL. Yes, sir.

Mr. HEFLIN. Suppose they sell 500,000 bales; do they deliver that cotton, get it from the South, or do they deliver to me 10,000 bales and I sell and deliver to somebody else 10,000 bales, and that cotton is in New York?

Mr. HILL. That cotton is treated the same as if I owed this gentleman [indicating] \$100, and I should draw on the bank for it; and he, in turn, owed it to another man and passed the check along, and it passed from hand to hand, and finally reached the bank and it canceled \$1,000 worth of obligations before it got through.

Mr. HEFLIN. What I am getting at is this: Does that same cotton remain in New York throughout the season, practically?

Mr. HILL. No; it does not; it comes and goes.

Mr. HEFLIN. From New York?

Mr. HILL. Yes, indeed, all the time.

Mr. HEFLIN. Where does it go to from New York?

Mr. HILL. To Europe—to the mills.

Mr. HEFLIN. I have been under the impression that very little cotton has been distributed from New York.

Mr. HILL. To Europe and the mills. If you were to watch the various grades of low middling cotton, you would see 5,000 bales of it come to town, and only 2,300 bales stock; you would see 7,000 bales go out; it comes and goes all the while; it is a constant flowing and ebbing tide.

Mr. HEFLIN. Can you give me an idea of the average amount throughout the season in New York?

Mr. HILL. I should say that normally we carry a stock of from 50,000 to 100,000 bales. Is that right, Mr. Marsh?

Mr. MARSH. Yes.

Mr. HILL. Which satisfies the demands, 500,000 bales.

Mr. HEFLIN. Do you supply spinners through that stock?

Mr. HILL. Indirectly, yes. But the southern spinner is better educated in that matter than the northern spinner. The American spinner has never yet reached the education that is characteristic of the continental European spinner. Ninety per cent of the cotton dealt in on the Continent of Europe is dealt in on the basis of futures. Seventy per cent in Great Britain is dealt in in that way, because they make long-time contracts. In America, I should say that 35 per cent, as a rough guess, of the wants of the American spinner is supplied, directly or indirectly, through the cotton exchange. It is not necessary that Mr. Parker, for example, should buy cotton on the exchange. Mr. Parker or Mr. Callaway told me yesterday that they were figuring on buying cotton from a man in St. Louis. Well, the man from St. Louis was in my office three or four days ago. If they should buy from the man in St. Louis, the man from St. Louis would handle the contract on the exchange. In fact the spinner makes the cotton buyer handle the contracts, because he would rather the cotton buyer would put up the margin.

Mr. HEFLIN. Now, in the case that the chairman spoke about, of the clerk in Columbia, S. C., going out and selling 100 bales of cotton, and somebody else buying that 100 bales: Suppose that that is between selling seasons, when there is no cotton, practically. Is it not possible for those contracts to be dealt in in the summer time, between selling seasons, and go on just like they do in the selling seasons when cotton is moving, and they are selling contracts and supplying spinners?

Mr. HILL. I do not think there is—you are speaking of the selling season from a farmer's standpoint, are you not?

Mr. HEFLIN. Yes.



Mr. HILL. The selling season of cotton has widened in the last 10 or 15 years very materially.

Mr. HEFLIN. That is true. Farmers do not sell as rapidly as they would in the past; but when the bulk of the cotton is gone, is it not possible that the character of contracts referred to by the chairman, to the extent of hundreds of millions of bales, to be sold?

Mr. HILL. No; that would be an exaggeration.

Mr. HEFLIN. Well, 50,000,000 bales?

Mr. HILL. Oh, there might be in the course of a year 50,000,000 bales.

Mr. HEFLIN. And there might not be in existence over 150,000 bales of actual cotton.

Mr. HILL. Oh, yes; more than that.

Mr. HEFLIN. Well, 500,000 bales.

Mr. HILL. There is always more than that.

Mr. HEFLIN. I am talking about a possible case.

Mr. HILL. When you get to that condition, cotton is above 20 cents a pound—that condition in the visible supply.

Mr. HEFLIN. Is it not possible for 50,000,000 bales to be dealt in on the cotton exchange when there might not be over 500,000 bales in the United States with which to make the contracts?

Mr. HILL. No, sir.

Mr. HEFLIN. It would not be possible?

Mr. HILL. No, sir.

Mr. HAWLEY. How many bales are received in New York and disposed of to consumers in the course of an ordinary year?

Mr. HILL. I should say somewhere between 800,000 and 1,200,000.

Mr. MARSH. It varies very greatly, from 300,000 or 400,000 up to 1,250,000.

Mr. TAYLOR. The trading in New York is not confined to the people in New York and the spinners in New England. They make contracts with the southern spinners.

Mr. HILL. Yes; I have 1,800 people trading on my books, all the way from Bombay, India, to Sweden.

Mr. TAYLOR. And all the cotton bought in New York does not come through that port; it is often transferred from the South direct to Liverpool, or wherever it ultimately goes.

Mr. HILL. I do not think I ever, out of a quarter of a million bales that I have handled in a spot way, that I ever had 10,000 bales delivered in New York.

Mr. TAYLOR. Practically all contracts for cotton goods are made months before the goods are made up, are they not?

Mr. HILL. I think so; but you will have to ask the spinners about that.

Mr. PARKER. Mr. Chairman, I would like to apologize for a little temper which I showed a moment ago. I do not think Mr. Hill or Mr. Marsh meant to use an offensive expression when they used the term "shylock."

However, I wish to say this: That I am willing to stand on that particular transaction to which they referred to show the absolute necessity of remedying the conditions of the cotton exchange. This was the transaction:

In December I bought 1,000 bales of middling cotton from Mr. McFadden, paying him 110 points on May; that is, I paid him 110

points more than New York cotton was represented to be worth in May. He was to deliver me that cotton in May. At the time May cotton was 12.90. I, therefore, paid him 14 cents for that 1,000 bales of cotton.

Then what happened? Mr. McFadden has the reputation—I will not say he made it—but the large borrowers in New York sold that cotton there until they forced May cotton down to 11.50. I, therefore, had a loss, apparently, in May cotton of the difference between 14 and 11.50. As far as the buyer of my goods was concerned, he thought that I was going to buy my cotton at 11.50.

Mr. McFadden said to me, "I find great difficulty in getting middling cotton. In the place of middling cotton, will you take low middling at 125 points difference?" I said, "I will not do it. I will tell you what I will do, however; I will cancel that contract with you for 13½ cents. I will lose ½ cent, because I can buy middling cotton at my own price at 13½ cents; and although you in New York have so depressed the price that the public thinks that I can buy that cotton at 11½ cents, I will lose ½ cent to you and pay the farmer 13½ cents." He said, "No; I will not do it, because I have lost so much on my hedges."

He has not done it; and he has got to deliver the cotton to me.

Middling cotton is one grade that is not in abundance; but if you will pay the 14 cents that I am going to pay he will get all he wants. If he will pay 13½ cents, he will get all he wants. If he is going to pay only 11½ or 12 cents, he is not going to get it; and neither am I going to settle with him on arbitrary differences fixed upon by a difference of value brought about by manipulation.

Mr. MARSH. In view of that statement of Mr. Parker, Mr. Chairman, I want to say that in what I said, I actually had not Mr. Parker nor this particular transaction in mind at all; and I am exceedingly sorry if the manner of my utterance led Mr. Parker to think that in any way I was even thinking of criticising him, because I was not.

The point that struck me was that here was a case where it appeared from the surface of the statement that a great firm, the largest cotton firm in the country, could not get any middling cotton to fill the sale; that was all I had in mind, and all I wanted to bring out.

The CHAIRMAN. Mr. Marsh, before you take your seat, I will ask you, do you agree with Mr. Parker's statement that if they would pay a reasonable price for that class of cotton they can get it?

Mr. MARSH. That I am not accurately informed about, because I am not buying and selling cotton in the South; but I have no doubt that Mr. Parker is quite correct in saying that they can buy that cotton, a limited quantity of it.

Mr. JACOWAY. Did you say a while ago that the contract need not be complied with?

Mr. MARSH. I took the statement as it was made here, as Mr. Hill made it; and I confess that Mr. Parker has put a somewhat different light on the situation since Mr. Hill made the statement. Mr. Hill's statement, as I understood it, was—

Mr. PARKER (interposing). Right there I will ask Mr. Webb if I were to-day to offer you 14 cents a pound for 1,000 bales of middling, could you not get it very quickly?

Mr. WEBB. I think so. I will state, however, that it would be very difficult for me to get it, as the middling is very scarce now. I could get strict middling much more easily.

(Thereupon, at 5 o'clock p. m., the committee took a recess until 10.30 o'clock to-morrow morning.)

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COMMITTEE ON AGRICULTURE,  
HOUSE OF REPRESENTATIVES,  
*Washington, D. C., Friday, April 24, 1914.*

At 10.30 a. m. the committee reassembled, pursuant to the taking of recess.

The CHAIRMAN. I do not think Mr. Hill had concluded his statement yesterday when we recessed, and we will ask him to continue this morning.

STATEMENT OF MR. J. C. HILL—Continued.

Mr. HILL. I had only a letter to read, which I had written to Mr. Meadows, dated April 8, 1914, in reply to a letter from Mr. Meadows asking me in regard to the various bills you have here before you.

Yours of April 6th. The very title of your office is sufficient pardon for the lack of brevity which I must evidence in answer thereto. To answer it properly I must go into rather sweeping detail.

You ask my criticism of House bill 15318 and House bill 14492. I shall also include in my remarks Senate bill 110.

H. R. 15318:

I like the initial clauses of this bill, and I like the tax idea rather than the prohibition of the mails, for the reason, first, I think the business can stand a small tax, and my suggestion is 1 cent a pound, or an absolutely prohibitive tax.

Mr. HAWLEY. What?

Mr. HILL. One cent a pound.

Mr. HAWLEY. It is one-tenth of a cent a pound.

Mr. HILL. No; 1 cent a pound will be \$5 a bale for those who do not comply with the law.

Mr. HAWLEY. I thought you were referring to clause 3, which says one-tenth of a cent a pound.

Mr. HILL. One-tenth of a cent a pound; but I say here 1 cent a pound—

Mr. HAWLEY. You are not commenting on this clause here?

Mr. HILL. I am criticizing that clause, and I will give the reasons later on, page by page.

I think the business can stand a small tax, and my suggestion is 1 cent a pound, or an absolutely prohibitive tax, for contracts which do not comply with the bill, and 5 cents per hundred bales instead of 25 cents for those which do comply with the bill. However, the figures as they are written in the bill are not sufficiently objectionable, and would stand very well, and not seriously interfere with the volume of business done, because I do not think 25 cents per 100 bales would keep any except a few cranks away from the market.

I would therefore go to page 3, section 5, line 14, and would make that line read as follows:

"Contracts, by-laws, and rules of said exchange, board of trade, or similar institution to comply with each of the following conditions."

This, as you will notice, is merely an amplification of the idea of the fact that this law is devised to compel exchanges to adopt certain reforms.

My next correction would be on line 24, page 3, in which I would eliminate the two words "or settled."

Mr. HAWLEY. Are you going to tell us why?

Mr. HILL. Yes, sir.

My reason for making this correction is that if you leave those two words in it might permit bucket shops to do business where there was no actual intention to receive or deliver cotton.

That is line 24, page 3.

On page 4, section 5, I would add the words "mixed-packed" in line 16, and I would insert in line 19, right after the word "linters," the following phrase: "or cottons commonly known as bollies or machine-gin cotton."

Mr. PARKER. Mr. Hill, is not that word "mis-packed," meant for "mixed-packed"?

Mr. HILL. I was referring to that now.

Mr. PARKER. Is there any such thing as miss-packed?

Mr. HILL. I do not know of it; no, sir.

The CHAIRMAN. It is mixed-packed?

Mr. HILL. Mixed-packed.

I would insert in line 19, right after the word "linters," the following phrase: "or cottons commonly known as bollies or machine-gin cotton."

Mr. GLENNY. May I interrupt you, Mr. Hill? Do you mean machine ginned or machine cotton, because you have machine cotton after it has been ginned?

Mr. HILL. I mean machine-ginned cotton.

Mr. GLENNY. If you say "machine cotton" you cover both.

Mr. HILL. I do not see the distinction—

Mr. GLENNY (continuing). Because they take cotton which has been ginned and run it through the machine and improve its quality. They take factor samples and pickings from the factor's office and run them through the machine.

Mr. HILL. Then I would say machined cotton.

Mr. GLENNY. It is a technicality, perhaps, but "machined cotton" covers both and "machine-ginned cotton" does not.

The CHAIRMAN. Then, you would make that "machined cotton" instead of "machine-ginned"?

Mr. HILL. Machined cotton; yes.

On the top of page 5, we have section 6 of the bill, which covers very nicely both the idea that no pro forma deliveries are to be made, and the fact that each bale of cotton must be adequately tagged and identified, but I would insert at the end of line 7 the following phraseology: "and that if such delivery contains more than one single grade the seller shall pay the buyer \$1 per bale penalty."

That embraces the idea of an even-running delivery with a penalty for mixed deliveries.

The CHAIRMAN. Mr. Hill, in that connection, is it your judgment that the insertion of that language would not narrow the market so much as to cause manipulation or an undue hardship?

Mr. HILL. I do not think it would, Mr. Chairman. As a matter of fact the clause as you have it to properly identify the cotton, tag and bale and make each bale so you can easily get at it, would equip

large handlers of cotton so that they could make it even running if they wanted to. If a man bought 5,000 bales of cotton or 4,000 bales of cotton he could very easily go through and separate 15,000 or 20,000 bales himself if each bale was separately marked and which could be retendered in another certificate from the one in which he received it.

Mr. HAWLEY. Mr. Hill, suppose the cotton crop runs 15,000,000 bales, how would that amount be graded? Is it generally distributed among the grades?

Mr. HILL. It is entirely according to the year, Mr. Hawley. A year like this, why, I should say the predominant grades would be low middling, strict low middling, and middling cotton which would cover, oh, easily 60 per cent of the crop.

Mr. HAWLEY. And about equally distributed among those?

Mr. HILL. Oh, no.

Mr. HAWLEY. What grade of cotton is usually the predominant grade?

Mr. HILL. Strict low and middling, I should say.

The CHAIRMAN. Strict low and middling?

Mr. HILL. Strict low and middling. That, however, is a sheer guess. One year differs from another very, very widely. This year has been a low-grade year, an extremely low-grade year.

Mr. HAWLEY. I was listening to the testimony for the last two or three days, and it occurred to me, from the statements of a number of the speakers, that there must be some grades that predominated over the others in a very marked extent.

Mr. HILL. Those grades from low middling to good middling cover 80 per cent of the cotton usually.

Mr. HUMPHREYS of Mississippi. Let me ask you a question.

Mr. HILL. All right, Mr. Humphreys.

Mr. HUMPHREYS of Mississippi. You think the principal purpose the exchange performs in the cotton trade is insurance?

Mr. HILL. Yes, sir.

Mr. HUMPHREYS of Mississippi. Then, that being true, would not this penalty you propose of \$1 a bale—

Mr. HILL. Make it even running—

Mr. HUMPHREYS of Mississippi. Where they deliver different grades, you propose to penalize them if they give you different grades. Now, would not the result of that be to give the buyer in this transaction an unfair advantage over the seller?

Mr. HILL. I think not, Mr. Humphreys.

Mr. HUMPHREYS of Mississippi. What other purpose has it in view, if you do not want the cotton itself. If you are not there for the purpose of securing the 10,000 bales of cotton, what purpose have you in penalizing him if he offers you merchantable cotton, but not all of the same grade?

Mr. HILL. The theory I have, Mr. Humphreys, is this: Cotton would express itself to-day without that clause, let us say, at 12½ cents.

Mr. HUMPHREYS of Mississippi. How is that?

Mr. HILL. Cotton would express itself, let us say, to-day, on the market, at 12½ cents. If that clause were added, it would express

itself at 12.70. Therefore, the man who cared to arrange his cotton in even-running lots would get the 12.70.

Mr. HUMPHREYS of Mississippi. On this 10,000-bale contract, then, that would be a commission he has to pay of \$10,000 to the man who bought the cotton?

Mr. HILL. Yes, sir.

The CHAIRMAN. It would result very greatly in raising the value of the product, would it not?

Mr. HILL. No more than a dollar a bale, I do not think.

Mr. GLENNY. Would not that be putting the contract back in the algebraic division and taking it out of the arithmetical?

Mr. HILL. To some extent, yes; and would compel those who dealt in cotton on contract to properly class it.

Mr. HUMPHREYS of Mississippi. Right there I want to get this straight in my mind and am asking these questions for information, because I am very much in the dark and need light. It would compel those, you say, to class the cotton; it would compel the seller to properly class them?

Mr. HILL. No; it would not compel them. But my idea is it would make a mixed shipment unprofitable.

Mr. HUMPHREYS of Mississippi. I think your statement was it would compel them.

Mr. HILL. On the contract, if they wanted to enjoy the 12.50 price, they may tender a mixed lot, but if they want to enjoy the 12.70 price they would make tender of an even-running lot.

Mr. HUMPHREYS of Mississippi. My idea was you stated when you started you did not want the cotton, but you wanted the insurance. Now, you are requiring the seller, it occurs to me, to do something that will simply put the price of your contract up and enable you to make a dollar a bale more than the buyer on his contract—more than he otherwise would make—when he has not real intention of securing actual cotton.

Mr. HILL. The very idea of this, Mr. Humphreys, is to make our market a spot market, an attractive market for those who finally use the cotton to come to to secure an even-running lot suited to their wants. A well-assorted dry-goods store will sell goods to better advantage than the man who has them just in one huge store.

Mr. HUMPHREYS of Mississippi. I understand. If a man goes to a dry-goods store for the purpose of buying dry goods, that is true.

Mr. HILL. I want them to.

Mr. HUMPHREYS of Mississippi. But if a man goes to a cotton exchange for the purpose of securing contracts, then it does occur to me if you penalize the seller who under this bill would have a right to deliver only merchantable cotton, you penalize him if he stays within these grades. It does occur to me that you are taking an advantage; that the buyer is taking an undue advantage.

Mr. HILL. If contracts were the only thing that the cotton exchange were suited for, Mr. Humphreys. But both New York and New Orleans are the places where the spinner could go to buy his cotton. Many, many time in a wild market a spinner would be much safer if the desired grades were obtainable themselves than if you use contracts, and he is buying from some fellow who might or might not be able to fulfill his contract.

Mr. HUMPHREYS of Mississippi. Is it your belief that under the bill as drawn, or with the amendment suggested by you, a material part of the 15,000,000-bale crop would be bought and sold on the exchange?

Mr. HILL. I asked one of the most prominent cotton men in New York City that very question, and he said he thought if that sort of a bill should be devised that the objection he raised to it was an insufficient warehouse room there. If we had sufficient warehouse room we would become the same character of a market Liverpool is.

Mr. HAWLEY. How much cotton can you warehouse there at any one time now?

Mr. HILL. In New York I suppose the capacity is 350,000 or 400,000 bales of cotton. That is my impression. We have an additional warehouse in view now.

Mr. HEFLIN. What were you saying about Liverpool?

Mr. HILL. My ideas are to make New York become like Liverpool, a place of storage for from 900,000 to 1,000,000 bales of cotton. Although we are geographically slightly away from any other point of transfer, but at the same-time we could bring cotton back from Liverpool at 15 cents a hundred, or 15 points.

Mr. HARRISON. Does that warehouse belong to the New York Cotton Exchange?

Mr. HILL. No, sir.

Mr. HARRISON. Does the New York Cotton Exchange own any warehouse?

Mr. HILL. I do not think they do.

Mr. MAGUIRE. It belongs to the individual members of it, I suppose?

Mr. HILL. No; the members have nothing to do with it.

Mr. SLOAN. Who does own it?

Mr. HILL. Several different companies. The New York Dock Co. owns it and the German-American Warehouse Co.—how many systems are there, Mr. Marsh?

Mr. MARSH. There are three systems now.

Mr. HARRISON. But not in any way under the direction of the New York Cotton Exchange?

Mr. HILL. No.

Mr. HARRISON. And not under its management at all?

Mr. HILL. No.

Mr. SLOAN. Who suggests this scheme you speak of?

Mr. HILL. There is a scheme on foot now looking to the construction of a warehouse, but nothing definite has been decided yet—one on the east end of Long Island, and the Long Island Railroad Co. has expressed some willingness to participate in it; another on the docks in Brooklyn—a warehouse costing \$600,000 or \$700,000.

Mr. MAGUIRE. Does the Liverpool Exchange own its warehouses?

Mr. HILL. I could not tell you.

Mr. MARSH. It does not.

Mr. HILL. I do not think it does.

Mr. MARSH. It owns no warehouse.

The CHAIRMAN. All right, Mr. Hill; proceed.

Mr. HILL (reading):

My reason for this insertion is that I think our contract should express itself as an even-running contract. The argument in favor of its expressing itself in

that way you already have in the long-winded document which I have previously sent you. I think that this would make our contract express itself higher, and I think, in addition thereto, it would cause those who shipped cotton here to class it first at home rather than to ship a lot of odds and ends up here and let these people class it.

Then we come to section 6, page 5 and line 19, which should, I think, be made to read as follows—

Mr. MAGUIRE. You spoke something about classification at points where the production is.

Mr. HILL. What I mean is, the man should ship out uniform cotton rather than a lot of odds and ends. He should grade and classify it himself at home rather than go out in the yard and say, "Ship all the rest of my cotton—the remnants—to New York."

Mr. MAGUIRE. To whose advantage do you consider that to be?

Mr. HILL. Oh, no one. There is no advantage except the advantage that the man gives us merchantable cotton in New York.

Mr. MAGUIRE. It compels him to supply just the grade required in your market, or compels him to classify it?

Mr. HILL. No; it compels him to at least scrutinize his cotton he is shipping. A great deal of cotton shipped to New York as remnants of 5 bales here, 10 bales there, and 15 bales yonder, to make up a 100-bale lot—when it reaches there the owner of the cotton for the first time knows accurately its class.

Mr. MAGUIRE. In doing that, you are putting him somewhat at your mercy, are you not?

Mr. HILL. I do not think so. He can ship it as it is.

Mr. MAGUIRE. Classified according to your suggestion, of course.

Mr. HILL. No; he can ship it as it is, and get his value for it. If he cares to arrange it in even-running lots, why, he will get \$1 more a bale for it.

Mr. SLOAN. Is not the exchange—for instance, the live-stock exchanges we have in all the different large centers, and also the grain exchange—to a large extent largely for the purpose of grouping and classification, where the small producer does not produce a uniform product, but sends what he has, that it may be classified, and, being classified, value added to it by reason of its classification? And is not that the proper function of your exchange—I mean one of them?

Mr. HILL. That is the proper function. But, then, to come back to my idea again, if you should ship 10 carloads of 3-year-old steers, classified at home, you would get a better price than shipping a mixed carload of steers, cows, and yearlings, and get a round-lot price.

Mr. SLOAN. I agree with you, as far as classification can take place, that it should take place.

Mr. HILL. Yes.

Mr. SLOAN. I quite agree with that; but I did not know how far your remarks went as hedging upon that and placing the classification upon the initiator rather than you taking your legitimate part on the exchange.

Mr. HILL. No; it is not compulsory.

Mr. SLOAN. It ought to be distributed between them. The original shipper growing the cattle, of course, ought to classify them for his own benefit as much as possible.

Mr. HILL. He ought to.

Mr. SLOAN. But, of course, if he has some 3-year-old steers, some 2-year-old steers, and some heifers, and something else, he has to



ship what he has and they go to the exchange and then they are assembled there as one of the legitimate functions of the exchange to present to the proper buyers, and, I suppose, cotton, to a large extent, would follow the same course.

Mr. HILL. Of course. Suppose he shipped 500 steers there, the function of the exchange is to class each one of those steers separately. But the man can, if he wants to, when he gets ready to deliver, if he has 200 3-year-old steers, make them into one certificate and one contract and secure a slightly better price than he would if he were just to pick out the first head of cattle he comes to.

Mr. SLOAN. Then your idea is he should do his share of classification?

Mr. HILL. As much as possible.

Mr. SLOAN. But not take the burden from your shoulders, but you doing your share?

Mr. HILL. Yes; that is the idea.

Mr. HUMPHREYS of Mississippi. Mr. Hill, may I ask you another question about that \$1 penalty? As I understand, some years a large part of the crop is of a good grade, due to a favorable season. Another year, due to some cause, a large portion of the crop is of a lower grade. I suppose that same proportion would naturally be reflected in the cotton that is in New York in the warehouse. If 60 per cent of the crop, or 75 per cent of it, is a low grade, then 60 or 75 per cent of the cotton on hand in New York deliverable on contract will be of low grade?

Mr. HILL. I should think so.

Mr. HUMPHREYS of Mississippi. And so, in a good year, you have a high grade. Now, that being true, would not this penalty tend to depress the price of that particular grade of cotton which is represented by that—I was going to say the minority fraction—smaller fraction?

Mr. HILL. A very small shipper, possibly he might—

Mr. HUMPHREYS of Mississippi. In the dealings on the New York Exchange, if the man naturally would have to deliver three-fourths of his cotton of a certain grade and pay a penalty of \$1 a bale on all that was not of that grade, would not that naturally tend to depress the price of the other?

Mr. HILL. The idea is this: That, theoretically, there would only be a single fractional part of 100 bales—let us say the grade that was less plentiful was middling fair; there would only be a fractional part of 100 bales of middling fair. If there were in your stock 800 bales of middling fair cotton, or, let us say 823 bales of middling fair cotton, inevitably these would gravitate into 8 contracts of 100 bales each plus a fractional lot and that 23-bale lot would be the only one that penalty would attach to.

Mr. HUMPHREYS of Mississippi. There would be 20 points, I understand—

Mr. HILL. There would be 23 bales of cotton.

Mr. HUMPHREYS of Mississippi. And would be 20 points on every bale of cotton of that grade.

Mr. HILL. No; you do not get the idea. If there were 823 bales of middling fair cotton, and if that was all there was in New York, 800 of them would be in even-running lots and 23 of them would be

the only ones that would float around and pay the penalty if they were tendered. As a matter of fact, people would go into the unscrambling business.

Mr. Lever, we will say, would go to New York with a mixed lot of 200 bales of cotton, and in that he would have 50 bales each of four different grades. You would go to New York with a mixed lot of cotton, and in that you would have a mixed lot or four lots of 50 bales each. Now, by trading among yourselves you could swap him 50 bales of middling low for 50 bales of middling, paying the difference. That would complete each of you a hundred-bale lot of cotton.

Mr. MARSH. Mr. Chairman, may I ask a question at this point?

The CHAIRMAN. Yes.

Mr. MARSH. Would it not be true, Mr. Hill, that in getting this cotton together there would be a very heavy expense in the way of lighterage, drayage, etc., on the cotton?

Mr. HILL. Not if each bale were separately classed there would not be.

Mr. MARSH. If the unscrambling were done in New York you would have 100 bales of mixed cotton at the railroad stores on Staten Island in which 13 bales were strict middling cotton. You have another 100 bales of cotton of mixed lots of cotton, of mixed grades of cotton, at the independent stores, and in some one store out of the 80 or 90 independent stores, and say you would have these mixed lots of cotton scattered all over the port of New York: In order to get them together you would have to have the expenses of lighterage, handling, draying, and so on, unless you were going to provide that you could deliver to a man 100 bales of even-running cotton, 10 bales on Staten Island, 10 bales in South Brooklyn, 85 bales somewhere else, and so on, all over the port of New York.

Mr. HILL. Well, I would make that provision, then. I would say in case an even-running delivery was made it could be made in half a dozen warehouses.

Mr. MARSH. In that case, however, the receiver would have to pay the expense of putting them together, would he not?

Mr. HILL. No; not if you had that provision in your rules or by-laws, that in case an even-running delivery were made it could be made in half a dozen different warehouses.

Mr. HUMPHREYS of Mississippi. Mr. Marsh, may I ask you one question, the same one I asked Mr. Hill a moment ago? If this penalty of a dollar were imposed, what, in your opinion, would be the effect on the cotton that represents the smaller fraction of the grades in the crop? Do you catch my question?

Mr. MARSH. I think I understand what you mean, Mr. Humphreys.

Mr. HUMPHREYS of Mississippi. That is, if 60 or 75 per cent of the cotton there is of one grade, then what would be the effect of this provision on the cotton that represents the other grades?

Mr. MARSH. In the first place, Mr. Humphreys, I do not think it often happens that 65 per cent of the cotton there is of one or two grades. Almost invariably the cotton in New York is pretty fairly divided among the different grades. It is, of course, true that in a low-grade year the lower grades are more heavily represented than the higher grades; and in a high-grade year the higher grades are

more heavily represented than the lower grades. But, generally speaking, the New York exchange contains a fair assortment of the various grades, high and low. I am not able to reason out myself, to my own satisfaction, exactly what would happen to those scattered lots of the minority grades. I do not know—this question, which I asked you, about the expense of gathering the bales together in a great place, like the port of New York, where you have very high lighterage charges and have high labor charges and very high in-and-out warehouse charges, and so on—I do not know just how that would work out. It seems to me offhand, that the effect upon the minority grades would be to depress their value; but I do not want to take that position decisively.

Mr. HILL. You do not mean, Mr. Marsh, it would depress the value of any one grade unless it depresses the whole contract. You might argue that, but it could not depress the value of any one grade more than the commercial difference or the fixed difference on the commercial system.

Mr. MARSH. In my opinion, offhand, it would depress the value in the market of any grade which was scattered in small lots all through the warehouses of New York, because it seems to me, offhand, that somebody would have to bear the expense of getting those scattered lots together somewhere, and that the expense would naturally be deducted from the market worth of that cotton.

To put it in another way, if the small shipper in the South ships a hundred bales to New York containing five or six different grades, that cotton would necessarily, in the first place, be put into one store. He could not have it delivered to half a dozen different stores; it would go to one store. That is a railroad and lighterage proposition; not a cotton-exchange proposition at all. Now, then, he has five or six or seven grades in one store, and no one of those grades is, as far as he is concerned, deliverable, except at the penalty. If the cotton is to be brought together into even-running lots, he or somebody else has got to bear the expense of getting it together; and it would seem to me that that cotton would therefore, locally and for the moment, be depressed in worth to the extent of that expense. What that would be I do not know.

Mr. HAWLEY. Mr. Hill, under your proposition would not this be the result, that in every one of the stores cotton would be assembled in even-running lots according to the grade, and then for all the cotton, a low middling or strict middling, there would be an excess of, say, 13 or 25 or 40 bales in that one store, and all the rest would be in even-running lots and you would not have to move very many bales from any store to any other store.

Mr. HILL. Mr. Hawley, my idea is there would be professional unscramblers. Let us reverse this idea, for argument sake, and say a contract would be made expressing itself just as it now does on basis middling, any grade to be tendered; and if it were tendered a premium to be given if it were an even-running lot, a premium of a dollar a bale. That would be perfectly satisfactory. I would just as soon say a "premium" to be paid for delivery in even-running lots as a penalty for a mixed lot.

Mr. HAWLEY. I was just speaking of Mr. Marsh's objection. If 50,000 bales went into one warehouse—

Mr. MARSH. That is impossible, sir. A single store in New York holds only about 3,000 bales.

Mr. HAWLEY. Would it not result in this, if this provision he suggests were inserted in the bill: That the man owning the store or those owning the cotton in the store would assemble it in even-running lots, and of the cotton that any one man owned he would not have a surplus of 13 bales, another man a surplus of 15 bales, and another man a surplus of 25 bales over these even-running lots, but there would be just one surplus in the store, and that to move this there would only be the lighterage and other charges on a few bales in excess in any grade?

Mr. MARSH. Of course, you understand, Mr. Hawley, that when cotton is moving to New York not one or two or three shippers in the South are shipping it, but 50, 75, and 100, some shipping 5,000, some 10,000, some only 200, and some 300 or 400 bales, and that the cotton, even though it got into a single store, if that is possible, would be in the hands of a considerable number of owners.

Now, if it were physically easy and possible for those people to meet, as the boys meet in the ring room, and one man would stand up and say, "Now, I have 13 bales of strict middling cotton I do not want, but I do want 13 bales of low middling cotton," and another man say, "I have 13 bales of low middling which I do not want and I do want 13 bales of strict middling," then they could very quickly bring the thing together and straighten it out into even-running lots. But you have got the practical situation that the owners of this cotton are scattered all the way from San Antonio, Tex., to Norfolk, Va.; that the cotton is being handled in New York by any one of 126 different houses, and that you have great practical difficulties in bringing these parties together. The only way in which these cottons can be straightened out is, I think, the way Mr. Hill suggests—to have people in the market who make a business, as he puts it, of unscrambling the tangle. And I think under the provision he suggests we would have in the market very quickly people who make a business of unscrambling the tangle. But, of course, they have got to be paid for their trouble, and they have got to pay the expense involved of such a movement of cotton from one warehouse or one dock company to another, as you know. I do not know how much of that would be involved.

As I said to the chairman, I am very much in doubt as to how this would work out practically or what the expense would be; but it is obvious there would be an expense.

Mr. RICE. Would it be as much as a dollar a bale?

Mr. MARSH. If there were much movement of cotton around New York Harbor, it would be a dollar a bale.

Mr. CONE. It would be more than that. The labor in and out is 20 cents.

Mr. MARSH. Yes.

Mr. HUMPHREYS of Mississippi. The effect, then, would be, if I understand it, while my assumption seems to be an erroneous one, that there would be 60 per cent of any one grade or 75 per cent of any one grade; but of course, if that were true, the tendency would be to depress the small fraction. If that is not true, and there is a fairly equal division of grades, the effect of it would be to depress all of them, would it not?

Mr. MARSH. It might work that way, I should say.

Mr. HILL. Right on that subject I would suggest, then, that you reverse the proposition and make it, if the delivery contains an even-running lot, the seller shall receive from the buyer \$1 a bale premium in that event. I am quite certain that 95 per cent of the New York stock would constantly be delivered in even-running grades.

The CHAIRMAN. All right, Mr. Hill, I think you have about exhausted that line of it. Take up your next proposition.

Mr. HILL. Then we come to section 6, page 5, and line 19, which should, I think, be made to read as follows:

Commercial differences in value thereof to be established by the Secretary of Agriculture, or through a committee of his selection in any manner he may direct.

This phraseology in the bill would eliminate from line 20 to the bottom of page 5 and would eliminate all of page 6 and the first 8 lines of page 7.

The CHAIRMAN. In other words, you would put into the hands of the Secretary of Agriculture the full discretion to establish those commercial differences?

Mr. HILL. In any way he sees fit; yes, sir. The rest of the bill needs very little correction. I think, however, in section 15, page 9, it would be wise to forget lines 18, 19, and 20, which read as follows:

Nor shall the payment of any tax imposed by this act be held to prohibit any State or municipality from imposing a tax on the same transaction.

That fact already stands as a law. The addition of this phraseology is, to my mind, a suggestive one to the various States that they can, if they wish, continue to legislate against future transactions and may, if they wish, pass some foolish tax which would be prohibitory in their own States.

I am hopeful that when Congress and the cotton exchanges blend all of their ideas into a law the Southern States will see fit to revoke the existing legislation upon the subject, because I think their doing so would bring many a doctor, lawyer, and merchant into the market as a speculator at the time the farmer needs the first speculative aid in marketing his crop.

On page 10, to conform with my ideas, the Secretary of Agriculture having the power to fix differences, you would have to correct line 8 with the following phraseology:

Designate what are correct differences in value between grades.

And as the final line of the bill I would make it effective September 1, 1914, instead of six months after the passing of the act.

The criticisms you are going to get on this is the fact that they do not take cotton less than low middling in grade, nor less than seven-eighths of an inch in staple—it is not necessary to stipulate more than 1½ inch. Let them deliver as long a staple as they see fit to; and to prepare yourselves on this occasion I have the following suggestion to make for your office of markets department, referring to the office of markets of the Department of Agriculture:

Instruct each of the special agents of the Department of Agriculture to make a trip over the entire territory, and while on this trip to visit as many spot firms, who sell cotton to spinners or who export

it, as is possible, and have them ask these spot firms the following questions in confidence.

How many bales of cotton did you handle last year?

How many of those bales were shipped by you and invoiced by you at less than seven-eighths of an inch in staple?

How many of those bales were shipped by you and invoiced by you at less than low middling, or less than strict low middling, tinged, in grade?

Of course you would not get the news from the entire cotton crop in this way, but you would get a very fair percentage idea of how much cotton would be excluded were you to exclude everything below low middling, and how much cotton would be excluded if you exclude everything below seven-eighths of an inch in staple.

To my mind the fault we have here lies in the fact that we permit cotton with faulty staples to creep in, and I do not think, as many others do, that the exclusion of cotton below seven-eighths of an inch in staple would exclude very much desirable cotton. In fact, at the end of each year we find our stock here combed down to not only low grades, but to deficient staples. I do not mean low grades. Sometimes it is combed down to high grades. To the lowest desirable grades. It is the deficiency in staple more than it is the grade which makes cotton undesirable.

Then we come to Senate bill 110.

I think it would be desirable to change the initial clause of this into a tax clause instead of a post-office clause. I would insert at the beginning of line 5, page 2, the words "even-running," and again I would insert the same two words in the middle of line 14 on the same page, which is "even-running basis grade," and the word "such" on line 15 should read "other even-running."

The CHAIRMAN. Mr. Hill, why should you prefer to rely on the taxing power rather than the mails for accomplishing the purpose sought in these various bills?

Mr. HILL. I think we could stand a small tax and I doubt the constitutionality of the prohibition of the mails. I think you can prohibit the Louisiana State lottery, but not the individual members of the New York Cotton Exchange.

The CHAIRMAN. Have you submitted that question to the attorney for your firm?

Mr. HILL. I have, sir.

The CHAIRMAN. What is his opinion, if you do not mind stating it?

Mr. HILL. That is his opinion and the opinion of several other attorneys.

The CHAIRMAN. A prohibition against several classes of persons using the mails would not be constitutional?

Mr. HILL. Would not be constitutional. And I want to pass a law that is constitutional, and I do not want you to pass one the Supreme Court will decide is not a law.

Mr. MAGUIRE. Have you any precedents under a regulation of the taxing power?

Mr. HILL. I am not a lawyer. We did tax cotton in the Spanish-American War, I know.

Mr. MAGUIRE. I mean under the taxing power?

Mr. HUMPHREYS of Mississippi. Yes; unfortunately we have a number of decisions of the court that will sustain him.

The CHAIRMAN. I will be able to furnish a number of decisions of the court on that proposition.

Mr. MAGUIRE. Have the Southern States—the cotton States—or any other States enacted any legislation that will be of aid to us in making up this legislation?

Mr. HILL. All the States except Louisiana and Tennessee have cotton legislation on their books, I think.

Mr. HEFLIN. Mr. Hill, you think Congress would have the right to say as between two individuals that this or that transaction which it deems to be wrong and against the public welfare should not be indulged in, don't you?

Mr. HILL. I am not a lawyer, Mr. Heflin.

Mr. HEFLIN. I think it would. Then, if it would, do you not think it would have the right to regulate the vehicle by which information was carried from one to the other to carry out that contract?

Mr. HILL. You are asking me a point of law, and I am only versed in cotton.

Mr. HEFLIN. I do not think it is unconstitutional, myself. I think the Government has the right to say, if it deems a certain contract in cotton a gambling transaction, that the United States mails shall not be used for the purpose of carrying on that transaction.

The CHAIRMAN. That is not the point in the Senate bill, I wish to say to my friend. The point there is a prohibition against a man sending and not the thing sent. Mr. Hill is not a lawyer, however, so we need not clutter up the record with questions of law and the answers of a layman.

Mr. HILL. I would scratch out everything from line 23 to the bottom of page 2, and the entire contents of page 3, and insert in place thereof the idea that the Secretary of Agriculture in his own way could find the differences between grades.

The CHAIRMAN. You are discussing the Senate bill now, are you?

Mr. HILL. I am discussing the Senate bill; yes, sir.

Then, on page 4, line 6, I would make it read, "tender or deliver or recertificate."

The phraseology in regard to pro formas is a little indefinite. It should be made to read, "during the months named for delivery," instead of "on the day named for delivery." The day is not named. And at the end of that phrase, or at end of line 9, page 4, I would insert, "such contracts must further provide no cotton having staple of less than seven-eighths of an inch shall be tenderable."

I would eliminate entirely all of section 3, on page 4. I do not see the use of it or the service of it.

If you will go over very carefully what I have written, you will find I have included in these bills all of my previous ideas except the one of recertification, and that idea is included in the Senate bill.

Now, as regards House bill 14492—

The CHAIRMAN. Mr. Hill, I suggest it is not necessary to discuss that bill, because it is not at this time before the committee. That bill will come later before the committee, when I will ask you and other witnesses to appear on that.

Mr. HAUGEN. Mr. Chairman, I think it is quite as important as this bill, and my understanding was the two were to be considered at the same time.

The CHAIRMAN. Yes; but at the same time I think as we have not considered that bill in this discussion we might get the record mixed up. However, Mr. Hill, you may go ahead and discuss that.

Mr. HILL. I do not like the bill as it stands, because it lacks simplicity. It would serve the purpose, it is true, of making other countries or shipments to other countries go under American standards unless, of course, they went under type.

I do not like the idea of giving a license to grade cotton to every Tom, Dick, or Harry who applies therefor, and I think it requires a very rigid examination to find who is entitled to such a license; and instead of this bill, I had another idea which I do not think has struck Washington as yet, and that was this, to make a bill separate from any of these antifuture bills, and under this bill to tax nondescript cottons and create a bureau of cotton classers, about 10 or 15 in number, with headquarters in Washington but with a license to roam around under the auspices of the department to investigate and inspect deliveries made in the various exchanges, just as the Secret Service inspects the methods of the distillery man. I think the 15 men could be hired for an average of \$3,000 each; or even call it \$4,000, there would only be \$60,000. To secure this revenue, if you would make it compulsory that at each gin or cotton-oil mill every bale of bollies, repacks, false packed, machine ginned cotton, or each bale containing any quantity of pickings or linters, must have a certain lead stamp placed on each tie, and that these bales must be marked in a certain manner to indicate their character, and that each gin or oil man must pay to the Government 50 cents for each bale of this nondescript cotton which they have packed, you would remove at once and properly identify all of this character of cotton and prevent people trying to put it on contract, as they now do. If a man ships 100 bales of cotton up here, all of which are bollies, and if he manages by hook or crook to get 10 bales of it accepted for delivery he is getting about \$200 more value for those 10 bales than they are worth, and, as a matter of fact, it is getting to be a hard thing to tell what bollies are with the eye, machinery is so perfect.

I do not think it is any hardship on the farmer or producer to compel him to pay a tax on bales of cotton which are falsely packed or on bollie or machine-ginned cotton. These are cottons which he would get nothing out of at all unless these methods were employed. But the fact that you are unable to segregate them from good cottons sentimentally lessens the value of those good cottons, when engagements for their sale are being made by letter or by telegram. To illustrate that point, Mr. Hawley would not like to buy a horse by telegram or letter. You would rather see it with your eye.

Mr. TAYLOR. He might get fooled then.

Mr. HILL. Yes; he might get fooled then, but he would be better suited.

Mr. TAYLOR. I have seen some fooled.

Mr. HILL. If these undesirables are thoroughly segregated, it eliminates all possibility of their creeping into the shipment. You possibly know it, or possibly do not know it, but on almost all continental shipments you are allowed 5 falling bales out of each 100 bales, which means that unless you have more than 5 undesirable in the 100 they can not make a claim against you. Therefore, some shippers will ship 96 bales bang-up and drop in 4 bales of bollies,



and on these 4 bales make, let us say, \$20 per bale. Of necessity, this finally comes out of the value of the round lots in the shape of cheaper prices.

As for taxing repacks, those are the products of the sample room, and is like that much lagniappe; and as for linters, both you and I can remember the time when they began rubbing the fuzz off of the seed to keep from choking the cow to death, and did not imagine that it would ever result in any practical use, and, as a matter of fact, they have gotten so they skin them so close and so bald-headed now that they carry away a portion of the seed. Linters are not nearly so good as they used to be.

Mr. HUMPHREYS of Mississippi. If you are as old as I am, you will remember when they used to throw the seed away, too.

Mr. HILL. Oh, yes. But I am not as old as you are, Mr. Humphreys. [Laughter.]

Mr. HEFLIN. Right in that connection, Mr. Hill. I have been making a fight here for some time to have the report on lint cotton and linters separated, and the Director of the Census has done that this year, as you know. Don't you think that is proper—that it ought not to be put in the same column?

Mr. HILL. If you could persuade the exchange to do the same thing.

The CHAIRMAN. This bill provides that they shall be separately reported.

Mr. HILL. This bill provides that they shall be separately reported, because they will be separately invoiced and the bills will be separate for them—the foreign bills of lading will be separate for them. There are instances where men have sold bales of cotton abroad and shipped linters.

Mr. HUMPHREYS of Mississippi. The point I have in my mind is this: The fact that a use for linters has recently been discovered is no more reason for taxing it than there would be for the taxing of cotton seed.

Mr. HILL. Except in the case the cotton should not pass.

Mr. HUMPHREYS of Mississippi. As a matter of fact, nobody ever bought a bale of linters thinking they were buying something else.

Mr. HILL. A man might buy cotton and it might contain nothing but linters.

Mr. HUMPHREYS of Mississippi. That is on the exchange.

Mr. HILL. No, sir; it is not on the exchange. They are prohibited on the exchange.

Mr. HEFLIN. A report from the exchange of 15 bales of linters carries the idea it is cotton, does it not, Mr. Hill?

Mr. HILL. A great many times.

The CHAIRMAN. All right, Mr. Hill, proceed.

Mr. HILL. So the linters are not very desirable for any purpose whatever, unless that North Carolina man succeeds in making armor for battleships out of it, as he threatens to do. There is a man in North Carolina who is going to make armor for battleships out of linters now. A tax of 50 cents a bale on this nondescript cotton would serve the purpose of creating a revenue of over one-half a million dollars, and it would brand this nondescript cotton with a red flag, so that it would be easy to segregate this nondescript cotton in any statistical count of cotton.

I think that if this bill, which I suggest, would be made comprehensive enough in its scope, permitting the Department of Agriculture, through its board of classers, all experts, to make or change the types when they wished to add or subtract from the types now existing, it would only be a short while until Mahomet came to the mountain, or until Europe adopted the American Government's classification. It does not make much difference who makes the type. If you have a given top, let us say middling fair, and a given bottom, let us take good ordinary, the intermediate grades could be made by anyone with reasonable eyesight, the idea being to bisect in each instance the difference between grades. Let us say you had types of middling already created, and one of good middling, and wished to create a type for strict middling; then it would only be necessary to lay down your middling type and good middling type, and as nearly as possible find some intermediate sample, approximately half way between those two grades so far as the color and foreign matter were concerned. If your wife could give you two grades of blue ribbon, and ask you to go to the dry goods store and tell you to get for her a bolt of ribbon the color of which was to be halfway between the two grades of blue you had in your hand, you would be able to approximate it if you are not color blind. The man, of course, who would class cotton is a man who can go there without carrying the samples of ribbon along with him to match.

Now, my idea is that between middling and good middling there is at the moment about 60 points difference in value, and if we were to go through 14,000,000 bales of cotton we might find 60 grades each a shade better than the other, all of which were slightly better than the middling and slightly poorer than the good middling. What we want is to find some grade just about 30 points more valuable than middling and 30 points less valuable than good middling, if present differences in value are going to continue to exist. Suppose we make a mistake and the one we finally choose for our type of strict middling happens to be not exactly half way between the middling and good-middling grade, but happens to be about 20 points more valuable than middling and 20 points less valuable than good middling, then our commercial differences would absorb this very slight error. In other words, we would quickly find the commercial value of it, and it would not make any difference about bisecting the angle exactly, so far as commercial grades are concerned.

The commercial differences would be made to read, strict middling 20 points over middling, and good middling 60 points over middling. Therefore little harm would have been done, because prices would adjust themselves to whatever the grade might be. In other words, if to-morrow we commence calling the cotton we are now calling good middling, if we commence calling it low middling, low middling would quickly express itself at good-middling prices.

A great many insurgents of the New York Cotton Exchange, of whom I am one, have wanted a new contract and a new style of trading for a long time. The standpatters have recently become hopeful that the legislation which Washington might thrust upon us would be of a harmless and insipid character. If Senate bill 110 goes through in its present shape all that I can see that it would do for the contract would be to make commercial differences and Gov-

ernment grades, and I do not think the Government standard or any other standard of grade will help very much in the way of elevating prices, although I do think it would do an infinite amount of good to stop the clamor which seems to be directed against our present classification. I do not think that commercial differences are very often radically away from our fixed differences, except on some one or two individual grades, but wherever they are radically different, that is the grade which comes here; and I think, too, that the professionals in cotton and those who make a habit of tendering on contracts and receiving on contracts will comb through 500,000 bales of cotton to find that cotton which fits the weakest staple and the weakest and least desirable grade which can be tendered in New York. The only way to prevent these undesirables accumulating—

The CHAIRMAN. Now, Mr. Hill, that is a very broad statement you make there, that the professional will comb through 500,000 bales of cotton in the South in order to find the most undesirable grades to ship to New York to tender on a contract. What purpose have they in mind; to depress the price?

Mr. HILL. No; not necessarily to depress the price, but merely to find a market for it. This selling of cotton, Mr. Lever, to any given buyer, when selling the contract there is no obligation other than to comply with the written letter of that contract. If he sells cotton to a spinner, if he sells Mr. Parker, he wants to retain his trade; he wants cotton Mr. Parker can spin; he wants cotton with character in it. And if he should make a faulty delivery to Mr. Parker he would lose his business for all the rest of the time and become noted as a shipper of that class of cotton.

The CHAIRMAN. As a matter of fact if this custom does prevail, does it not have the result of lowering the value of your contract in New York?

Mr. HILL. To be sure; yes, sir.

The CHAIRMAN. And to that extent lowering the value of the high grades of cotton?

Mr. HILL. Lowering the value of all.

The CHAIRMAN. Of all grades of cotton?

Mr. HILL. Yes, sir; and making our market express itself instead of a basis middling contract, as a basis, as it happens right now, a strict ordinary or low middling contract.

The CHAIRMAN. In other words, your contract is not based to-day on the low middling, but upon low grades of cotton?

Mr. HILL. It is based upon the stock in New York rather than the cotton crop.

Mr. HEFLIN. You say Mr. Parker wants good grades of cotton, spinable cotton, to manufacture? He would want a good grade of spinable cotton?

Mr. HILL. Yes, sir.

Mr. HEFLIN. That character of cotton would go to the mill. Now, you spoke of combing all through this cotton to find a low grade, and that cotton not desirable to the spinner would find its way to New York to the New York Exchange to be tendered on contract?

Mr. HILL. It does now. That is why I want to eliminate about 7 to 10 per cent of the crop, and in that elimination I want to eliminate off of the lower grades, which is faulty cotton, and off the shorter staples. When you have eliminated 10 per cent of the crop

in that way, you have eliminated 75 per cent of the undesirable deliveries in New York.

The CHAIRMAN. Mr. Hill, right on that point. Is it your opinion that paragraph 5, section 5, of the bill would eliminate more than 10 per cent of the crop, if that much? That is the section which refers to what cotton can be tendered.

Mr. HILL. I do not think it would eliminate 10 per cent, Mr. Chairman.

The CHAIRMAN. You do not think it would eliminate 10 per cent?

Mr. HILL. No, sir.

The CHAIRMAN. Of course, I know in a general way it is a guess, but what would be your guess on that?

Mr. HILL. I had an argument with a gentleman on that the other day. I told him I did not think 10 per cent of the cotton in America, in the worst year, is shorter than seven-eighths of an inch staple. The man I was arguing with, who has handled many times more cotton than I have, told me he thought there were years when it would average 30 to 40 per cent. That shows the variation of opinion. I finally made a bet with him that he was to investigate and I bet him \$100, the bet being on the basis that there would not be 900,000 bales of cotton of staple shorter than seven-eighths of an inch. I do not think there are 500,000 bales out of the last crop as short as seven-eighths-inch staple.

The CHAIRMAN. Oh, in Texas it has been an unusually bad year.

Mr. HILL. In Texas it has been an unusually bad year, and Texas has a lot of wasted staple, and that cotton is not deliverable on contract. Perished staple is not deliverable on contract now.

The CHAIRMAN. What per cent of the crop would be eliminated by the grade fixed in the bill?

Mr. HILL. I should say 5 per cent would be a maximum.

The CHAIRMAN. Five per cent.

Mr. HILL. The cotton under low middling.

Mr. TAYLOR. You suggested, Mr. Hill, that the bureau investigate?

Mr. HILL. The bureau was to investigate and then invoice and determine; and after they determine, whatever the figure was, if they say 500 bales was less than seven-eighths, if they disclose low middling is 30 per cent of the crop, I say do you not make the bottom class good middling; make it good ordinary?

Mr. TAYLOR. Your entire argument seems to be this contract must be to a certain extent elastic?

Mr. HILL. I think we have right now, Mr. Taylor, the best opportunity of finding a correct basis, because we have had a very bad crop and have a bad staple, and whatever disclosures the bureau gets will stand for all time. Don't you think that is true, Mr. Marsh—that this is rather an abnormal year in low grade and rather poor in staple?

Mr. MARSH. This is only one year out of a great many. We have not had this year, for example, a drought in the Atlantic States. Consequently, the figures for the Atlantic States will be utterly worthless as showing cotton not seven-eighths of an inch but three-quarters of an inch in a drought year in the Atlantic States. I merely mention that as one illustration of the fact that the figures of a single year will not be significant of what takes place over a series of years.

Mr. HILL. I think we had a drought in Mr. Heflin's State this year.

Mr. GLENNY. In speaking of low-middling cotton, are you basing your opinion upon the present Government standard or the New York standard?

Mr. HILL. I am basing it on the American standard classification.

Mr. GLENNY. The American standard classification, translated, means the standard you use on the New York cotton market?

Mr. HILL. Yes.

Mr. GLENNY. As a matter of fact, that standard is lower than the present standard, because good ordinary of the old American standard was entirely eliminated in the Government standard and the grade good ordinary in that standard was raised to the very full style of strictly good ordinary cotton. In other words, you are on the verge of low middling. So that if you speak of low middling as the low basis of tenderable cotton, you are really putting up the American standard of middling cotton?

Mr. HILL. Mr. Glenny, I do not put up anything. I put it up to the Office of Standards.

Mr. GLENNY. That is the fact, nevertheless. If we take the Government standard and compare it to the American standard the low middling standard of the Government is very nearly middling cotton; and therefore your argument, based upon the Government standard, if it were based upon the Government standard, would cause a very strict classification of all contract cotton.

Mr. HILL. No; mine is more or less a guess, Mr. Glenny. These are personal opinions; and, as I say, maybe 700,000 or 800,000 or a million bales would be untenderable. But I say the office of markets can make a disclosure expressed in American grades or any grades.

Mr. GLENNY. I know, but I want to get the record clear as to which standard you are arguing on.

Mr. HILL. I am not arguing at all.

Mr. GLENNY. You suggest low middling as a low basis, and when you have suggested low middling as a low basis you have in mind the American standard classification and not the Government classification. I want to get the record clear, because it is very important.

Mr. HILL. The disclosures of the office of markets it maybe will be expressed either in the American standard classification or the Government classification.

Mr. GLENNY. Exactly. But in reading over the argument, as these gentlemen will do, as a basis for all their conclusions will have in mind the Government standard classification. Therefore your argument is supposed to be upon that basis. Your argument is false upon that basis. Your argument is perfectly correct from your viewpoint, but not from the viewpoint of these gentlemen when they commence to read the record over. That is the only reason I make that suggestion.

The CHAIRMAN. I think it is a splendid suggestion, because I think the members of the committee are thinking of the Government standards all the while here, and I am glad you made the suggestion.

Mr. SLOAN. I see you have classified the membership up there in New York, as well as the classification of the product handled. You say insurgent and standpat members. Are both of those represented in this hearing? [Laughter.]

Mr. HILL. I do not know.

Mr. HAWLEY. And are they tenderable on contract? [Laughter.]

The CHAIRMAN. All right, Mr. Hill; go ahead.

Mr. SLOAN. I would like to know if we are going to get both views.

Mr. HILL. I do not know. I am not a member of the New York exchange.

The CHAIRMAN. You are not a member of the exchange?

Mr. HILL. No, sir. I do not think that commercial differences are very often radically away from our fixed differences, except on some one or two individual grades; but wherever they are radically different, that is the grade which comes here, and I think, too, that the professionals in cotton and those who make a habit of tendering on contract in receiving on contracts will comb through 500,000 bales of cotton to find that cotton which fits the weakest staple and the weakest and least desirable grade that can be tendered in New York. The only way to prevent these undesirables accumulating is to add so many descriptive adjectives to the requirements for cotton for delivery that it will preclude that character of cotton from accumulating. If we begin, however, to use all of the descriptive adjectives which Noah Webster invented, we begin to make it harder and harder to deliver, and might, unless we are watchful of that phraseology, exclude cottons which are of desirable spinning character.

Mr. TAYLOR. You mean by that the contract must be elastic, and can not be strict and fixed; is that what you mean?

Mr. HILL. Oh, no; it must be within limitations. If you get a contract—

Mr. TAYLOR. But, still, there must be elasticity—some giving and taking both ways.

Mr. HILL. If you get a contract which is not elastic, if you get a contract which has too many descriptive adjectives, and strike a bad year—

Mr. TAYLOR. It would mean the elimination of a lot of cotton; is that what I understand?

Mr. HILL. Oh, yes.

Mr. HEFLIN. Right there: If a man should have a contract on the New York Exchange for cotton, and wanted it delivered for spinning purposes, what would you think of a contract that could be enforced—that is, the delivery of cotton agreed upon in the contract should be delivered within three grades, one above and one below the one stipulated in the contract?

Mr. HILL. It would be not at all feasible, because there is no firm, Mr. Heflin, in the United States which is large enough to deliver 500 bales of that character of cotton. The average cotton buyer might find it hard to deliver that character of cotton.

Mr. HEFLIN. Within three grades?

Mr. HILL. Within three grades. The little fellow is what I mean.

Mr. HEFLIN. What grades are you buying—in cotton—on the spot market? Isn't it a fact you never hear more than three or four grades mentioned in the local markets, and by the merchants buying cotton—the small cotton buyer?

Mr. HILL. I can answer that question, Mr. Heflin, best by stating we commenced cotton grading over here first in 1890. A bale of cotton or a sack of cotton—a spinner discovered the cotton he was get-

ting from New Orleans made a better twist than the cotton he was getting from the Carolinas, and then they began to call one Gulf and the other upland. After a time a man said, "What sort of cotton have you?" And the fellow said, "Middling good and middling bad"; and the term "middling" was ingrafted into the cotton language. Then a man complained of a shipment of cotton he got from another shipper, and he said, "That was very ordinary cotton he sent me"; and so "ordinary" became a term. The other fellow said, "That is fair cotton you shipped me the last time"; and then began to call it that grade. Then a man said, "What kind of cotton have you?" And the fellow said, "My cotton is good middling"; and so they began each year to distinguish between grades.

Mr. HAWLEY. Is that actually true, or is it an imaginative description?

Mr. HILL. It is an imaginative description, but probably true. [Laughter.] But finally they got to a point where they could not sell cotton by the terms "upland" or "Gulf," but sold it by the length of the staple. We sell it as fifteen-sixteenths cotton, or inch cotton, and 28-millimeter cotton, and it lost those terms. For instance, in South Carolina they raise cotton which could be sold as "Gulf" cotton, although it is "upland" country. In Alabama—

Mr. HEFLIN. What I am getting at is, in the local markets all over the South, do you ever hear any grades spoken of outside of the grades of middling, strict middling, ordinary, and good ordinary?

Mr. HILL. Oh, yes, indeed.

Mr. HEFLIN. What grades do you hear commonly talked about on the local market?

Mr. HILL. I have heard every one. They discuss them—the smaller the market the more they discuss them. The average buyer of cotton in a small place gets cotton from low middling to good middling. When it comes lower than low middling—

Mr. HEFLIN. How many grades are there between low and good middling?

Mr. HILL. Between low and good middling?

Mr. HEFLIN. Yes.

Mr. HILL. Without bisecting, there is low middling, strict low middling, middling, strict middling, and good middling. There are five grades. You get then fully low middling, fairly middling, and fairly good middling.

Mr. HEFLIN. I live in the largest cotton-producing district in the State of Alabama, I think. I have never heard more than three or four grades discussed in any cotton market in my district in the selling season, the grades known to the buyers at various times. They never talk about this high spinning of the grade, running up the scale to 20 and back to 1.

Mr. HILL. There is one department, the Department of Commerce, which has written a very interesting pamphlet, about a month ago, in regard to the relation of the cotton buyer and the cotton producer, and elucidating at great length that particular point you are trying to bring out. In a small place, Mr. Heflin, a farmer raises an extremely low grade of cotton. He does not realize that is worth \$20 a bale less than a neighbor's bale of cotton, where, as a matter of fact, he ought to secure \$20 a bale less. The man to whom

he sells is ignorant of the fact there is that much penalty that they charge him. This man raises a good ordinary bale of cotton, let us say. Another fellow raises a bale of cotton that is middling fair, possibly, say  $1\frac{1}{8}$  to  $1\frac{1}{4}$  inch staple. The man who has that cotton is afraid to pay its value. It requires a little more technical knowledge than he has, and he makes errors. The farmer is not offered a sufficient reward for exceptionally high grades and is not offered a sufficient punishment for lower grades.

Mr. HEFLIN. It is a sort of an average lot.

Mr. HILL. I think this pamphlet is Document No. 60, if I remember, by Dr. Cook.

Mr. GLENNY. Is it from Oklahoma?

Mr. HILL. No, sir; it is Dr. Cook.

Mr. GLENNY. There is one from Oklahoma.

Mr. HEFLIN. Now, then, when the farmer comes in town, Mr. Hill, with 12 or 15 bales of cotton, and he may have in the amount of cotton five grades, four or five grades. He takes a sample around, shows it to the various buyers. One man will bid  $12\frac{1}{2}$  cents a pound on the lot; another will bid 13 cents, maybe, on the whole 15 bales. Here is a sample a little better than this one, and this one is better than another one; and here is a farmer, now, who has four or five grades in this lot of cotton, and some one may say, "I will buy the whole lot and give you  $12\frac{1}{2}$ ." That is the way they buy cotton, is it not?

Mr. HILL. Yes, sir.

Mr. HEFLIN. So they do not go through the process of requiring the bales to be strict low middling?

Mr. HILL. It goes through the customary process.

Mr. HEFLIN. It goes through the customary process and is bought as an average lot of cotton, as a whole lot. That is the way the business is done in the local market.

Mr. HILL. I know. There is the first unscrambling you have of cotton.

Mr. HAUGEN. The object being to protect the farmer as much as the operators on the exchanges, in connection with what you have just said, would it not be a wise thing to provide for an inspection or grading or classing department as a protection to the farmer, that some one might ascertain for him the exact value and the exact grade of that particular cotton?

Mr. HILL. Mr. Haugen, that is not necessary.

Mr. HAUGEN. You just called our attention to the fact that they are selling cotton for \$20 less, through ignorance, and the merchant pays \$20 a bale more than they are worth through ignorance, because he has not a way of ascertaining the value.

Mr. HILL. Unless the Government would undertake to classify and give a guarantee—

Mr. HAUGEN. Do I understand you are in favor of official inspection?

Mr. HILL. I am in favor—

Mr. HAUGEN. But against the licensing and the fee system?

Mr. HILL. I do not think you should indiscriminately license people over the United States because it is a very hard thing to find good classers.



Mr. HAUGEN. Your contention is they should be placed on a salary and the Government should provide for inspection?

Mr. HILL. Have it provided for here so that two aggrieved parties would have a board of classification here, so that parties aggrieved might appeal to this final resort, a bureau of classers at Washington to pass on sealed samples. The idea you gravitate to is this—is to provide a classer at the gin.

Mr. HAUGEN. Now, not particularly; I have no particular scheme.

Mr. HILL. As I was going to say, that would be like providing a classer of wheat at the thrashing machine.

Mr. HAUGEN. Oh, no. They would be at a terminal. Take for instance, Minneapolis: No. 1 northern, 96,000 bushels received; 198,000 No. 1 shipped out. You see the difference. One hundred and sixteen thousand bushels of No. 4 and no grade received; not a bushel shipped out but shipped out at a higher grade. Now, we want to correct that evil, if it is possible to do so. I do not know that it exists as far as cotton is concerned, but I do know it exists on the board of trade.

Mr. McLAUGHLIN. Mr. Chairman, the appropriation bill we passed a while ago carries an appropriation of \$50,000 for instruction to farmers in regard to their training and helping them judge the grade for themselves, does it not?

The CHAIRMAN. There is an appropriation for \$50,000 for demonstrating, under such methods as the department itself may devise, the value of our present cotton standards.

Mr. HEFLIN. Then we all discussed, in that connection, that they should write in these bulletins instructions for teaching the farmers how to grade cotton.

Mr. HAUGEN. Mr. Chairman, I will tell you what we are doing. We have been here appropriating, I believe, altogether some \$550,000 on account of establishing and classifying grain and \$550,000 for the classification of cotton, and so far we have not made any headway except appropriating money. Now, then, we have been appropriating money for all these years and the time has come when we either ought to quit appropriating or we ought to classify; that is all. This classification could be done in no time. The department is prepared to do it. It is prepared to classify cotton now. In fact, it has been furnishing samples and selling them at the price of \$25 and \$30.

The CHAIRMAN. Go ahead, Mr. Hill.

Mr. HILL. My impression is that the faulty cottons are those which are strict good ordinary, good ordinary, and lower in grade, and when you have excluded those cottons from delivery on the contracts, you have excluded over 100,000 bales of that character of cotton which comes to New York. Out of every 100,000 bales of that character of cotton that arrives in New York there are from 60,000 to 70,000 bales of very poor and undesirable delivery. When you have excluded cotton under seven-eighths inch in staple out of every 100,000 bales which come to New York of that character, you have only excluded 10,000 bales which should have been permitted to go on contracts. As a matter of fact, if you make your limit seven-eighths of an inch the skillful shipper delivering to an unknown buyer through the medium of the contract buyer will only ship those cottons which will barely go through as seven-eighths-inch cotton, and

if you had Government classers here instead of our own the wise shipper would continue to try to foist five-eighths of an inch to three-quarters of an inch cottons on you even though your limit was seven-eighths of an inch, because they would know that for every bale you took from them they were making \$5 per bale more than its real value. The strength of any chain is its weakest link. The value of the cotton in New York will always be measured by the least desirable grades and poorest staples which can be given to that market. There is no danger of any man shipping 1½-inch or 1¼-inch cottons coming here for delivery on a contract when he can get just as much money for seven-eighths cottons.

I think the Lever bill, which goes from low middling upward and seven-eighths of an inch and upward would include more than 80 per cent of any cotton crop ever grown, and the Senate bill, which goes from good ordinary upward would include 90 per cent, even though both bills carry seven-eighths of an inch staple as a minimum staple. As a matter of fact, I do not believe that there are grown in the United States of America more than 300,000 or 400,000 bales of cotton under seven-eighths of an inch. Those three or four hundred thousand bales which come under that class are either the result of prematurely opened cotton from drought or else cotton grown on an extremely poor hillside not intended by nature for cotton land and grown from poorly selected seed and in a climate where maturity was slow. If the farmer has a new colt or a new calf dropped, and if nature makes those animals runts, the farmer must accept a price in accordance therewith. If the farmer, therefore, has cotton which is a "runt," he must be contented to accept a price in accordance therewith, so that his neighbor who has a normal product may secure for his full value. Neither the buyer nor the seller of a bunch of 2-year-old steers would consent for the neighboring farmer to include therein 10 or 12 head of dwarfed cattle.

The CHAIRMAN. Does that conclude your statement, Mr. Hill?

Mr. HILL. Yes.

The CHAIRMAN. I would like to ask a few questions. How many classifiers does the New York Stock Exchange have employed at this time?

Mr. CONE. Five.

The CHAIRMAN. If you do not mind stating, what is their present salary?

Mr. CONE. \$3,000 a year, sir.

The CHAIRMAN. How many do you have in New Orleans, Mr. Glenny?

Mr. GLENNY. Three, with a provision for seven. Unfortunately we do not need seven.

The CHAIRMAN. What is the average salary?

Mr. GLENNY. About \$2,300. It is over that.

The CHAIRMAN. Would it average \$2,500?

Mr. GLENNY. In the neighborhood of \$2,500. It is now about \$2,500.

The CHAIRMAN. Mr. Hill, do you favor standardizing uplands and gulfs separately?

Mr. HILL. No, sir. I would say one single standard would do.

The CHAIRMAN. One single standard would do?

Mr. HILL. Yes, sir.

The CHAIRMAN. Assuming that the committee should reduce this tax on legitimate operations from 25 cents a hundred bales to 5 cents a hundred bales, do you think that 5 cents a hundred bales would be absorbed by the trade and not transferred to the farmer?

Mr. HILL. Undoubtedly.

The CHAIRMAN. Undoubtedly.

Mr. HILL. The trade would absorb it just as I would absorb a 2-cent postage stamp each time I wrote you a letter.

The CHAIRMAN. The trade, as a matter of fact, would probably absorb 25 cents a hundred bales?

Mr. HILL. Yes, sir.

Mr. CONE. Mr. Chairman, may I correct my statement?

The CHAIRMAN. Yes.

Mr. CONE. There are seven, not five, classifiers.

Mr. HEFLIN. Mr. Hill, you stated awhile ago that this low-grade cotton would find a way to the New York Exchange under the present management and the better grades would go to the spinner. What would then become of that sorry grade of cotton on the exchange, ultimately?

Mr. HILL. It would be a matter of private treaty. The word "unspinnable," Mr. Heffin, is a very seriously misused term. They can spin it at a price. Mr. Parker can spin cotton which his spinners do not call for; but when he does it it takes one and a half times as many hours, probably, to get the same result. He can spin cotton New York will not take on contracts now.

The CHAIRMAN. One further question, and then I am through. You are in favor of the regulation of the exchanges rather than their destruction?

Mr. HILL. We could not do without them.

The CHAIRMAN. I wish you would make a statement briefly as to that.

Mr. HILL. I do not think we need any other statement than that which history furnishes. We have had exchanges since 1871. The cotton market has not had the violent fluctuations since then. I call attention to the violent fluctuations because the memory of January 13, 1910, is there, and because the memory of the Sully failure is there, large failures of financial interests. They occur just like a fire occurs in a man's house, at an unexpected moment. But fluctuations in cotton since the exchanges were established are much less than they were before. My father returned from the Confederate Army and went to raising cotton on the south side of the Arkansas River in 1866, and the Arkansas River was more navigable then than now, in spite of the appropriations of the Rivers and Harbors Committee. They had the boats about six or seven months of the year then. Those boats would come up and in the old, primitive way they would ship cotton to New Orleans, and the boat would bring back home provisions and things of that character. In 1866 the first crop he sold, raised on the uplands, he raised about a bale to the acre, and they tried to collect 6 cents a pound Government tax off of him, that he would not stand for it, although he had a lot of Kansas jay-hawkers come down and try to collect, but he sold the cotton to the mountaineers who came down, to be spun into cloth.

The next year he shipped to New Orleans, and those New Orleans fellows would always give up the tax. But in 1868, after having sold the cotton at 28, 30, and 40 cents a pound, and at home, he sold a great deal after the war at a dollar a pound—in 1868, after having raised cotton on a great big expensive farm, with a lot of negroes and poor white trash working for him, he found himself, as he thought, bankrupt. He had 150 or 200 bales of cotton lying there waiting shipment. The river was too low for the boat to come up, and he went to Ozark, Ark., and offered it to Henry Carter at 8 cents a pound. He wanted him to take his mules and cotton and all in one bulk so as to get even with the world, and Henry Carter refused to do it.

The boat came up a few days later and started down the river with the cotton worth 8 cents a pound. It stuck on a bar at Knoxville and got away from that, and stuck on a bar a little farther down and got away from that, and finally got out of the river and got into the Mississippi River, and by the time it got to New Orleans he sold that cotton at 28 and 32 cents a pound.

The CHAIRMAN. You give us that as a story to illustrate what?

Mr. HILL. The violent fluctuations which occurred in those days.

Mr. HAWLEY. When you say the cotton started it was worth 8 cents a pound—

Mr. HILL. Yes.

Mr. GLENNY. You said in the interior it was worth 8 cents a pound, whereas at New Orleans it was worth 28 cents a pound. What were the freight charges on that cotton?

Mr. HILL. The charges at that time were 2 or 3 cents a pound to go from Arkansas points to New Orleans, and after unloading that cotton George W. Cable, of New Orleans, with the firm of—

Mr. HAWLEY. That would not be so much a fluctuation in price as a variation in price.

Mr. HILL. It is 20 cents a pound.

Mr. HAWLEY. The fluctuation would apply to changes in given places. The variations would vary according to locality.

Mr. HILL. In that day, just as to-day, cotton in that locality is worth the difference in freight from that point to New Orleans. Let us say New Orleans cotton was then worth 10 cents a pound and sold at 30 cents a pound. There is a difference of 20 cents. And in that day and time they charged 25 cents per bale for reducing from English money, in pounds, shillings, and pence to American money.

The CHAIRMAN. Mr. Hill, as a matter of fact, the fluctuations in spot market cotton are not so violent on the exchanges. Is that true or not?

Mr. HILL. In the spot market it does not always feel the change as rapidly. Eventually, however, and inevitably they feel it.

The CHAIRMAN. Yes. I have noticed the quotations of spot cotton in the South. During this year it has been practically steady, but you have had some rather violent fluctuations in the last 10 days on the New York Cotton Exchange?

Mr. HILL. I do not consider southern quotations, especially at this season of the year, entirely dependable. It does not mean because cotton is quoted at Augusta, Ga., at 13½ cents that that price is obtainable there.

The CHAIRMAN. I understand that, of course.

Mr. HAUGEN. I understood you to say yesterday contracts were made restricting delivery to one grade. You referred to Mr. Parker, the contract he made, I believe, with McFadden. Is that through the exchange?

Mr. HILL. No.

Mr. HAUGEN. Is it outside of the exchange?

Mr. HILL. Yes.

Mr. TAYLOR. You say the cotton spinner, that some cotton costs more to spin than others. In making your grades, any cotton that is eliminated from that grade, that could be purchased by the spinner and spun, if you do not exercise care and obtain as much cotton as possible in your grades, then that will leave the farmers entirely at the mercy of the spinner. He would have to take practically whatever price the spinner would want to give for the so-called unspinnable or low grade of cotton.

Mr. HILL. My idea, Mr. Taylor, is it will certainly embrace 90 per cent or more of any cotton crop that grows.

Mr. TAYLOR. Your idea is that they get as much of the cotton in those grades as possible?

Mr. HILL. As much desirable cotton. Inevitably you will have some undesirable cotton.

Mr. TAYLOR. What do you say about Government grades?

Mr. HILL. I say that any man's grades we adhere to, that one man's grading is as good as another. Let Mr. Clark over there make a set of types and all adhere to them, and we will quickly accommodate ourselves so that the price would cover the difference.

Mr. HEFLIN. Mr. Haugen, you asked Mr. Hill there about one specific grade being contracted for by Mr. Parker, of McFadden, on the outside of the exchange. As I understand, the New York Exchange has twenty odd grades now, and if you contract with them for strict middling they can tender you any one or all of those grades on that contract and compel you to take them.

Mr. HAUGEN. That is my understanding, but I wanted to get in the record the fact that the contract was made outside of the exchange.

The CHAIRMAN. Their contract, as a matter of fact, is a basis middling contract upon which any of these grades are deliverable.

Mr. HILL. And Mr. McFadden doubtless makes money as well as the spot-cotton man on that same basis.

(Thereupon, at 12.23 o'clock p. m., the committee took a recess until 2 p. m.)

#### AFTER RECESS.

The committee reassembled at the expiration of the recess.

The CHAIRMAN. Gentlemen of the committee, Representative Levy, of New York, desires to be heard briefly, and the committee will be very glad to hear him.

#### STATEMENT OF HON. JEFFERSON M. LEVY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK.

Mr. LEVY. Mr. Chairman, I think it would be disastrous to interfere in any way with the prosperity of cotton exchanges. I think it would be disastrous to the cotton producers of the South. The

price of cotton would be placed in the hands of the Liverpool dealers entirely. For 25 or 50 cents transactions in cotton could be carried on just as easily in Liverpool as in New York. I believe that by, in any way, curtailing or hurting the cotton exchange in New York, this enormous export business of the United States would be injured, and the balance of trade in our favor would be reduced very largely.

I believe that the price of cotton would be in the hands of traders and agents of the spinners and the foreign buyers. It is to their interest, of course, not to have any cotton exchange. It is to the interest of the buyer of cotton to simply deal for it over the counter and in that way name his own price. I fear this very much, because I think it would be a great blow at the prosperity of our great country, and especially the South, which is so prosperous now—even more so than any other section of the country.

The CHAIRMAN. Do you think that that prosperity is due to the existence of the cotton exchange?

Mr. LEVY. I do.

The CHAIRMAN. Entirely so?

Mr. LEVY. To a great extent. Now, of course our great country is the chief cause of that; but I mean to say that a fair price is obtained for cotton owing to the fact of these exchanges being in existence.

From time immemorial, from the time of Venice and from a time way back 100 years ago in London, all those exchanges of various kinds have been growing up. The great information exchange in London, at Lombard Street, where it comes to a corner where the business men all meet; that has been one of the great causes for trade and prosperity in Great Britain.

The CHAIRMAN. There is not any exchange for hay, is there?

Mr. LEVY. Oh, yes; there are exchanges for hay.

The CHAIRMAN. Where?

Mr. LEVY. I think there is one in New York.

The CHAIRMAN. Trading in futures for the sale of hay?

Mr. LEVY. I think so. I have not gone into that question, but I know there is an exchange in hay.

The CHAIRMAN. Are there any in potatoes?

Mr. LEVY. Well, potatoes—you see how disastrous it has been to the farmers not to have one in potatoes; the farmer does not get his full price for his potatoes.

The CHAIRMAN. Are there any exchanges in onions?

Mr. LEVY. In London?

The CHAIRMAN. No; in onions.

Mr. LEVY. They do not get a very good price for them, except probably where they can control them. But the farmers do not get their full price for cotton. In cotton they obtain a better price than in any other agricultural product. Why? Because they have this great exchange, and this enormous amount of business is being done.

Mr. HAWLEY. May I ask the witness a question, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. HAWLEY. I understood you to say that the prosperity of the South was very largely due to the existence of the cotton exchange?

Mr. LEVY. Indirectly to the cotton exchanges. The prosperity of the South comes from its products.

Mr. HAWLEY. The cotton brings a higher price in the markets of the South than it does on the cotton exchange of New York.

Mr. LEVY. No; I do not think so. I say the exchanges are the cause of obtaining a good price in the South.

Mr. HAWLEY. How does that raise the price in the South, if cotton on the New York Exchange sells at a lower price than in the southern markets?

Mr. LEVY. Well, there are ups and downs in all business. But that condition is not continuous; it may exist for a day or so or something of that kind. But the cotton exchange of New York is the protection to the southern planter, and the same is true of the exchange in New Orleans. People always know, just like in the case of gold, that they can go to the exchange and get their price for the cotton. You do away with exchanges, and what price will you get for cotton? Not half what you are getting to-day. That is my theory about it. You are falling into great error if you destroy the exchanges. It is the great traders abroad and the spinners who are trying to force the exchanges out of business. They want to deal direct with the farmer and they want to do that so they can take advantage of him.

Mr. MOSS. Will you not admit, Mr. Levy, if there is no desire to abolish the cotton exchanges, that it would be possible to improve them in any way?

Mr. LEVY. I will not deny that. I am not going into technical points. I do not deny that the grading of cotton is of advantage. I am not going into particulars of that sort, but I mean to say that if you drive the exchanges out of existence you drive the market for cotton out.

Mr. MOSS. Then your argument is for the continued existence of the exchange, but you are not defending all the present practices of the exchange?

Mr. LEVY. Not by any means. I am not going into technical conditions; I am not very well posted about that.

The CHAIRMAN. Are you familiar with the operations of the New York Cotton Exchange?

Mr. LEVY. To some extent. I am a lawyer by profession; but from what I know of the general trade and the business done I know they are a distinguished lot of gentlemen. There are a great many of them who are from the South originally. There is not a finer class of men in the city of New York.

Mr. HARRISON. Do you not own a farm in Virginia?

Mr. LEVY. Yes; I own a farm in Virginia. [Laughter.]

The CHAIRMAN. You do not grow any cotton on it, however?

Mr. LEVY. Yes; I have grown cotton in North Carolina and Alabama.

Mr. HARRISON. How many bales do you raise a year?

Mr. LEVY. I do not raise any now. I am not producing cotton at the present time. I have too much of my time taken up by my duties here in Washington. But I only appeal to you for the exchanges because I believe the exchanges are an aid to the markets of the world. We ought not to do anything which would hurt or hinder in any way the trading in the exchanges of our country.

All the countries of the world are practically the same way. From time immemorial exchanges have been in existence—ever since commerce came into existence.

The CHAIRMAN. Do you recall how long cotton exchanges have been in existence?

Mr. LEVY. No; I do not recall how long; but I mean that there have been exchanges for anything that comes before the world in the way of products for the time being. Now, I believe that our exports are held up. Of course, we know that there are some eight or nine hundred million—

The CHAIRMAN. I beg your pardon; what was that?

Mr. LEVY. How much of the cotton have we exported?

The CHAIRMAN. About 66 per cent.

Mr. MARSH. \$600,000,000 or \$700,000,000 a year.

Mr. LEVY. Yes. I think the increase in the last two months has been \$23,000,000 over the last year, has it not?

Mr. MARSH. I do not remember.

Mr. LEVY. I know it is an enormous amount. If you interfere with our exchanges you put yourselves in the hands entirely of foreign exchanges.

The CHAIRMAN. Have you given any consideration to Senate bill 110 and House bill 15318, which seek to deal with this proposition?

Mr. LEVY. No; I have not. I have only come to the general principle of cotton exchanges. I will examine them later on. I was opposed to the bill in the House last year.

The CHAIRMAN. You would not know, then, whether you are opposed to these bills or not?

Mr. LEVY. I would go so far as to say, although I only express my own opinion, that I think we ought to do all we can to aid exchanges and build them up, and have them not only in New York, but in Washington, Baltimore, and other places. I think it is a great aid to trade, where the business men meet and do business.

Mr. REILLY. Your idea is that exchanges are for the benefit of the planter, is it?

Mr. LEVY. Most decidedly. You drive out the cotton exchanges of this country and the price of cotton would go down 50 per cent.

Mr. HAWLEY. In your judgment, is any gambling done on the New York Cotton Exchange?

Mr. LEVY. Not any more than in any other business. You buy a house and sell it to-morrow, or you buy a barrel of potatoes and sell them; all business and trading is gambling. You are not there for the purpose of doing nothing. You buy something and you expect to sell it at a profit. That is a gamble; everything is a gamble.

Mr. HAWLEY. I would not define gambling in that way.

Mr. LEVY. That business is trading. I do not call it gambling. Do you mean to say that if you buy something to-day, you do not expect to sell it to-morrow, if you were in business?

Mr. TAYLOR. What Mr. Hawley means is something on the one hand and nothing on the other.

Mr. LEVY. Oh, yes; but these exchanges are a benefit to the southern planter. If you were dealing with those members of the cotton exchange, you would see that they are the straightest, finest business men in the United States.



Mr. TAYLOR. You have not very many of them living in your district, have you?

Mr. LEVY. Yes; I have. [Laughter.] Do you mean members of the exchange? Certainly, and I have represented a great many of them.

Mr. HARRISON. That does not influence your views on the subject, does it?

Mr. LEVY. Not a bit. I am speaking for the prosperity of our country. I tell you we are in a very serious condition, gentlemen; we have this class of legislation by which we are trying to tear down and destroy.

Mr. HAWLEY. Do you think that the serious condition to which you refer is due to the Democratic administration? [Laughter.]

Mr. LEVY. I think it is due to a great extent to talking so much about trying to interfere with the business interests of the country; that is it. It is disastrous. We have 32 Democratic Members from the State of New York. Destroy the cotton exchange; where would they be? We would not have 10.

Mr. HARRISON. Would that affect the Members from other sections of the United States?

Mr. LEVY. Well, you would not have a Democratic Member of Congress from New York—and we are always the backbone of the Democracy; the way New York goes, the whole country goes.

Now, I have been telling you this for the last year. We are in a very serious condition, and it has cost a great deal by the way we have delegated our powers to commissions; Congress has given up its power to commissions. Why, we have the Interstate Commerce Commission, with cases before them where there are no objections, in many cases where the shippers have consented to the increase of rates, and yet they have held them up for one or two years.

Mr. JACOWAY. Do you not think the benefit from the new currency law will offset any disadvantages that will result from abolishing the exchanges?

Mr. LEVY. The new currency bill, if properly carried out, will benefit the country. Of course, the South will not have much benefit, in my opinion, in the way of borrowing money on cotton, as they now borrow all they want to the extent of 85 or 90 per cent of the value. They will not get it under the Federal reserve system, of course.

Mr. RICE. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes, Mr. Rice.

Mr. RICE. Are you aware, Mr. Levy, that about 75 per cent of the membership of the New York Cotton Exchange voted the Democratic ticket?

Mr. LEVY. That is what I say.

Mr. RICE. And are in sympathy with the policies of the administration?

Mr. LEVY. Yes; they are all friendly to the administration. I will only give you one instance. I tried to explain it to you on the floor of the House to-day, but did not get the opportunity.

The CHAIRMAN. If you missed the opportunity on the floor, you ought not to blame it on the committee. [Laughter.]

Mr. LEVY. Well, I would like to get you all, one by one, to my way of thinking.

Mr. HARRISON. You made a great speech in the House.

Mr. LEVY. That was on a point of order. What I wanted to say was this: You do not believe in such a policy as this. The Interstate Commerce Commission had for nearly two years certain railroad cases on its hands. They raised difficulties with the railroads' side of the case, and delayed the decision of it. There is one Interstate Commerce Commissioner who writes an opinion, and for something that happened three years ago the investors, not the stockholders nor the gamblers, as you say, but the investors, lose \$10,000,000 a day.

Mr. HAWLEY. Mr. Chairman, I should like to ask which bill before the committee has a clause in it about this Interstate Commerce Commission?

Mr. HARRISON. You introduced a bill on that, did you not, Mr. Levy?

Mr. LEVY. Oh, yes.

Mr. HAWLEY. I am asking the chairman which of the cotton bills now before this committee has that provision regarding the action of the Interstate Commerce Commission in it about these railroad cases?

The CHAIRMAN. Well, I do not know that either of the bills has—

Mr. LEVY (interposing). No; I am only giving you a general idea of some of the things we have in our country at the present time, and my idea is to build up business, and that is the reason that I do not want the exchanges destroyed. I only want to impress upon you that I believe that the cotton exchanges are of great benefit to the country and to the price of cotton.

The CHAIRMAN. We are very much obliged to you, Mr. Levy, for your information.

We will now hear Mr. Marsh.

**STATEMENT OF MR. ARTHUR B. MARSH, OF NEW YORK CITY,  
FORMERLY PRESIDENT OF THE NEW YORK COTTON EX-  
CHANGE.**

Mr. MARSH. Mr. Chairman and gentlemen, I want to begin by saying that I do not appear here in opposition to legislation with regard to the cotton exchanges. On the contrary, I have believed for a good while that legislation by Congress on the matter of dealings in cotton was imperative. Last summer, when the Clark amendment was up before the Senate, and when it seemed likely that its passage would produce very great confusion in the cotton trade and very great confusion in the financial affairs of the country, I had occasion to go to various persons connected with the Government to represent what seemed to me to be the inevitable effect of the immediate passage of that legislation.

I went to the President and told the President that, in my opinion, legislation was not only desirable but virtually indispensable. I went to the Secretary of Commerce and told him the same thing. I went to the Secretary of Agriculture and told him the same thing. I went to Senator Simmons, the chairman of the Committee on Finance, and told him the same thing. I came to Mr. Lever, the chairman of this committee, and told him the same thing. I had an interview with Mr. Underwood, as chairman of the Ways and Means Committee of the House, and to him I said the same thing.

Matters have come to a point where there can be no peace in the cotton trade, in my opinion, without legislation—legislation by Congress—legislation dealing not only with the cotton exchanges, but also, I believe, before it is complete, dealing with the handling of all cotton in interstate and foreign commerce, and reaching into the remotest hamlets of the South. More and more information is coming out all the time to show the necessity of this.

For instance, mention has been made here to-day of an investigation had by the Office of Markets of the Department of Agriculture, in regard to the marketing of cotton in Oklahoma. The state of things shown by that bulletin, as between the small interior cotton merchants, or country merchants, and country buyers, and the producers of cotton is lamentable. No other word can be applied to it; it is lamentable.

In my opinion, then, when Congress sets its hand to the plow it must plow the furrow through. It must go to the smallest hamlet in Oklahoma; it must go to the smallest hamlet in Texas; it must go to the smallest hamlet in South Carolina and Georgia, and must so legislate as to bring about uniformity of practice, the clearest understanding on the part of everybody concerned as to what the distribution of cotton means, what the price of cotton means, and all the details of the handling of this crop, which is the greatest money crop raised in the United States, and which, as far as any economist can foresee, will continue for an indefinite period to be the most important money crop raised in the United States.

That, then, is the position which I have taken with regard to legislation; and I need not say to this committee that in taking that position I have been representing the best opinion of the New York Cotton Exchange.

Consequently it can not be said that I am, or that the New York Cotton Exchange is, opposed to legislation on this subject in principle. On the contrary, we believe in legislation on this subject.

We come, then, to the question of what the legislation shall be.

And here, first, some general definitions should be applied to the legislation. In the first place, there should be no doubt as to the constitutionality of the legislation. Nothing could be more unfortunate than that the cotton trade, having legislation, should for a period of years be uncertain as to the constitutionality of that legislation. Litigation is destructive to any man's business and it is destructive to any department of business. Therefore the importance of the assurance is necessary that any legislation adopted by Congress is certainly constitutional—and when I say "certainly constitutional" I mean so certainly constitutional in the opinion of the best judges of the constitutionality of legislation that any uneasy person in the trade will nowhere find encouragement to test the constitutionality of the legislation.

You must remember you are dealing not only with associations of merchants like the New York Cotton Exchange or the New Orleans Cotton Exchange but you are dealing with a large number of individuals, some of whom are members of these associations, but thousands of whom are not members of these associations; and it is open to anyone of all these individuals, if he sees a chance and thinks there is a possibility of bettering his position, to assail the constitutionality of the legislation which may be enacted by Congress.

Now, we desire legislation which shall be so certainly constitutional that not one of these thousands of individuals would desire even to try to upset it.

In the second place, as a general test of the legislation, we believe that the legislation must be of such character as to contain within itself no disruptive and destructive elements. And by this I mean that the legislation shall be such that it is certain that at no time will some body of persons—whether they are spinners, or whether they are merchants, or whether they are cotton producers—will arise and say, "This legislation is ruining us; it is destructive of our interests, and we propose to see that the iniquity of it is done away with."

The legislation should be of such a character, of such fairness and equity, as between all the parties at interest, that there can be no chance, now or in the future, that this or that considerable body of persons interested in the production, or the distribution, or the manufacture of cotton shall say, "We must upset this legislation because it is ruinous to us and is iniquitous as between us and others."

We want the legislation, Mr. Chairman, that is adopted by Congress—and we urge this upon you with great stress—we want the legislation to be such that it shall be constitutional, and that it shall be universally accepted as just and equitable, so that there shall be neither an attempt to upset it in the courts, nor an attempt to upset it by political agitation and political pressure brought to bear upon another Congress.

Those are the two general requirements, as I see it, which the legislation adopted, to be satisfactory and bring the peace in the cotton industry in all its branches which we all desire, should have.

Now, as I understand the situation here, it is desired by the chairman that the immediate program of legislation, in the shape of Senate bill 110 and House bill 15318, here before us be discussed, not with the purpose of destroying it, or of antagonizing it, but for the purpose of bringing out the facts in regard to it, in so far as those facts are known and available.

It is absolutely in that spirit, then, that I shall say what I am going to say with regard to this program of legislation. I do not wish to be understood as advancing objections, in the hope of knocking out this legislation, or any or all legislation. I am not going to speak in that spirit or to that end. I take first House bill 15318, the Lever bill.

Before proceeding to the details of this bill, I should like to call the attention of the committee again to some general aspects of the matter. I suppose that it is not proposed—at any rate, by the chairman himself, Mr. Lever, who framed this bill, or by members of the committee, or by Members of Congress who in general sympathize with Mr. Lever's point of view—it is not proposed, I say, by them, to enact legislation which will restrain, impede, or in any way interfere with the efficiency of American business men. I assume that it is not proposed to produce a situation under which there will be virtually no place for American cotton exchanges in which contracts for future delivery are dealt in. I assume it is not the intention to throw this business outside of this country, to throw it to Liverpool, to Bremen, with its new futures market, or to Havre; that it is not intended to give the advantage over to foreign cotton

merchants, or to American cotton merchants who might migrate from this country to foreign markets.

If I am correct, it is believed that the legislation will make American cotton exchanges more efficient and will make them better serve the interests of the cotton producers, cotton manufacturers, and the cotton merchants of the United States.

Now, at this point, it is very obvious that we get into the field of competition, pure and simple. If the American cotton exchanges are subject to such rules and are limited in their manner of transacting their business so that it is competitively more advantageous to do this business in foreign markets, the business will surely go to the foreign markets; there is no escaping that. The competition alone insures that that will happen.

There is in the bill an attempt to prevent that eventuality in the form of a provision in section 3, to the effect that the terms of this legislation shall apply "in cases in which the order for such sale has been transmitted from the United States to such foreign country and either the buyer or seller described in such contract of sale is, at the time of the execution thereof, a resident of the United States."

In my opinion, Mr. Chairman, that provision is ineffectual.

In the first place, let me dwell a moment on the phrase "when either the buyer or seller described in such contract of sale is at the time of the execution thereof a resident of the United States." As doubtless most of you know, foreign cotton firms are in the habit of sending agents here in September and keeping them here until January to buy cotton for the foreign houses.

I am not lawyer, but I have had occasion recently to go over a good many decisions of courts of last resort with regard to the question of who is a resident of a country—not in this connection but in connection with the new workmen's compensation legislation, which is spreading all over the country; I find in those decisions that it is generally held by the court that a laborer who goes from one State to another, for a month or two, to do a job is not a resident of the State in which he does the job for the purposes of workmen's compensation legislation. An Italian laborer coming to the United States, staying two or three months to work on a railroad, is not a resident of the United States at the time he is working on the railroad.

Now I simply make this suggestion, not as an expert in the matter, not as a lawyer, but simply as having had to go over a good many decisions on this particular part in another connection in the recent past.

Mr. HAWLEY. Might I ask Mr. Marsh a question, Mr. Chairman? The CHAIRMAN. Yes; certainly.

Mr. HAWLEY. In making that examination, Mr. Marsh, did you find out whether language of this kind would meet the situation: "Is domiciled in the United States"?

Mr. MARSH. That probably would not. I may suggest, however, that if the language be, "At the time of the execution thereof resident in the United States," perhaps it would.

Mr. JACOWAY. I will ask you if your investigation did not lead you to this conclusion, that it was all a question of the intention of the individual in each particular case—the question of intent?

Mr. MARSH. That element came in in many cases, but not in all. Under the workmen's compensation statutes, a nonresident is frequently excepted from the compensation awarded by the law, and most cases were cases of laborers that had come temporarily into a State or into a country, because the cases I read were many of them English cases; and the question was whether the workman was a resident of the country; the legislation in England, for instance, declares that a resident of England is entitled to the compensation, but that a foreigner in England is not entitled to the compensation unless there is a treaty between the country of his origin and England to that effect.

The CHAIRMAN. Then your suggestion, Mr. Marsh, would be to strike out the word "a" as it appears before the word "resident" in line 19, page 2, of the bill H. R. 15318, and strike out the word "of" following the word "resident," and to insert in lieu thereof the word "in," so that it would read, "At the time of the execution thereof resident in the United States"?

Mr. MARSH. That is my suggestion.

The CHAIRMAN. Then, with that amendment written into the bill, would it have the effect of protecting our own people?

Mr. MARSH. I do not think so.

The CHAIRMAN. All right. Now, you may go ahead on that proposition in your own way.

Mr. MARSH. I do not think so for the reason that any large firm of cotton merchants with sufficient capital to maintain a house in Liverpool, Bremen, or Havre, would be able, without the transmission of any orders at all from this country, to go on with the hedging of its cotton just as it now hedges its cotton on the New York Cotton Exchange or on the New Orleans Cotton Exchange. What I mean by that is this: A large house in this country has a house, and in the form of an independent firm, in Liverpool. The house in this country arranges with that firm for all the hedging. The house in this country buys 1,000 bales of cotton to-day and simply cables its Liverpool house, "Have bought to-day 1,000 bales"—nothing more.

The CHAIRMAN. Well, would not that be evidence of some contract made in the United States?

Mr. MARSH. I do not think so. The contract need not be made within the United States.

The CHAIRMAN. Well, would it not be a contract that falls within these prohibitive sections here in the bill?

Mr. MARSH. I do not think so. Of course, that is a legal question that I am not competent to answer as an expert. But, in my opinion, it would not be an order under the terms of this legislation.

Mr. TAYLOR. Would not the acceptance be on the other side, Mr. Chairman, and therefore the contract be made on that side?

The CHAIRMAN. That may be; I am simply trying to get Mr. Marsh's opinion.

Mr. TAYLOR. The contract would be where the minds met, and the minds would meet on the other side of the acceptance.

The CHAIRMAN. I am trying to get Mr. Marsh's opinion, and also any suggestions he has in mind that will meet the situation.

Mr. RICE. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes, Mr. Rice.

Mr. RICE. The point, as I understand, is that the representatives here might buy 1,000 bales of actual cotton in the southern markets and cable the fact to his house in Liverpool. He does not know whether it is hedged or not. It can not be a part of the contract. Is that your idea, Mr. Marsh?

Mr. MARSH. That is my idea.

The CHAIRMAN. In other words, it could not be a future contract, but a contract in spot cotton?

Mr. MARSH. The most probable thing would be that the Liverpool house would be itself daily dealing in cotton, and any future contract that the branches reported to them from the United States would simply go into their general "position," as we call it in the cotton trade. The "position" is that we have so many bales on hand; we have outstanding contracts to spinners for so many bales; and there is a surplus either of cotton or contracts to spinners, which we hedge.

Now, a large firm in this country would certainly be distributing cotton all the time to English spinners, to German spinners, to French spinners, and its foreign house would be every day making sales, entering into contracts, getting cotton on hand, and hedging its net "position."

The house in the United States would simply report what it had done to its Liverpool house, and the Liverpool house would put it right into its own net position, and hedge that net position independently of any immediate order or instruction from the United States.

Mr. HARRISON. You do not think that ought to be permitted to be done by the Liverpool cotton exchange?

Mr. MARSH. I beg your pardon.

Mr. HARRISON. You do not think that the business ought to be done in Liverpool; you think it ought to be retained in this country?

Mr. MARSH. I certainly think it ought to be retained in this country.

Mr. HARRISON. In that connection, Mr. Marsh, how much future cotton is sold on future contracts on the Liverpool cotton exchange—if you know?

Mr. MARSH. There are no statistics and nobody knows. If I may interpolate a remark at this time, Mr. Harrison has once or twice asked about the number of bales of cotton sold, of contracts for future delivery made on the exchanges—

Mr. HARRISON. I will say that I have been trying to get the information from the departments, and am unable to get it anywhere; and I was just wondering if there was any source from which you could get the information.

Mr. MARSH. There is no source from which I could get the information, except an examination of all the individual books of all the commission houses doing business in New York and in New Orleans, and, of course, in Liverpool, Bremen, and Havre.

We used ourselves in New York to require every trade to be reported. But we discovered, even so, that we did not really have the information; that there were continual oversights, and I am sorry to say that we discovered that there were several members of the exchange at that time who, for reasons of vanity as for some other reasons, when making a trade for 100 bales, reported 1,000, 5,000, or

10,000 bales. In other words, we found that our own statistics were of no value, and that they could not be made of value unless we could go to the books of the members; and as we are an incorporated exchange, we can not go to the books of the members.

Mr. HARRISON. Mr. Marsh, I have read that there are 100,000,000 bales of futures bought and sold in the year on the exchanges. Then, I heard a gentleman this morning state, who is well informed on the business, that his impression was that there were 500,000,000. Would you mind giving the committee just your idea about how many there were bought and sold in this country on the exchanges?

Mr. MARSH. My impression is that in a year of normal activity on the exchanges the amount would probably be not far from 100,000,000 bales. But that is a pure guess.

Mr. HAWLEY. Well, that would include in it the transfer of a contract a number of times.

Mr. MARSH. That includes the transfer of a contract a number of times; and that was the point I was going to speak of when Mr. Harrison asked for further information.

Mr. HARRISON. I did not want to detain you; but I would like to have your idea about the Liverpool Exchange, if you have any idea about how many bales are bought and sold on that exchange.

Mr. MARSH. Members of the Liverpool Exchange who come to the New York Exchange tell us that we have more business than they have. Whether that is a correct estimate I do not know. In some respects cotton can be traded in on the Liverpool exchange in larger quantities than it can on the New York exchanges—I mean larger quantities without producing a marked effect on the market—which would seem at first sight to indicate that the volume of trading there is larger than it is in New York. Yet, as I say, members of the Liverpool Exchange itself come to New York, very generally to tell us that the volume of business is larger in New York than it is in Liverpool.

Mr. HARRISON. Now, along the same line, about what proportion of the 100,000,000 bales bought and sold on future contracts in the United States, which would include New York and New Orleans—is traded in on the New York Exchange and what proportion on the New Orleans Exchange?

Mr. MARSH. I have not the slightest idea, Mr. Harrison, as to the volume of trading on the New Orleans Exchange. I have never had occasion even to ask a member of the New Orleans Exchange about it, and I could not come within millions of bales of it.

Mr. HARRISON. It has been suggested by one gentleman from New Orleans that the proportion would be about one-fourth New Orleans to three-fourths New York. Would you think that that would be about the right proportion?

Mr. MARSH. Well, I should be guessing so absolutely blindly, Mr. Harrison, that I should dislike very much to go on record with an estimate as to any proportion.

Mr. HARRISON. Well, may I ask you this question—because you are so thoroughly informed about it—at Bremen and Havre, is there any trading in future contracts on those exchanges; and if so in what proportion and to what extent?

Mr. MARSH. On the Havre Exchange the trading in future contracts has been going on for a great many years. The contract is



a very restricted contract, designed to meet the needs of French spinners, who predominantly produce only very fine qualities of cloth, and who further consume only about 800,000 bales of cotton a year. The trading on the Havre Exchange in contracts for future delivery is therefore very much less in volume than it is in Liverpool or in New York.

I should suppose it is not one-tenth, and it might not be one-twentieth as much as it would be in Liverpool or New York.

In Bremen they first began to trade in contracts for future delivery of cotton on the 1st of February of this year. Nobody knows yet, and the people in Bremen themselves do not know what the volume of business on that exchange is going to be. Inasmuch as business began only on the 1st of February, it began after the heaviest movement of the crop of 1913-14 was over.

The trading in future contracts in Bremen, therefore, up to the 1st of September, this year, must be limited—limited by reason of the fact that the great bulk of the crop of 1913-14 had already been sold by the producers and already been hedged in some other market before they began doing business in Bremen. Does that answer your question?

Mr. HARRISON. Yes.

The CHAIRMAN. Now, Mr. Marsh, I wonder if you would not get back to the proposition you were discussing and discuss it logically, and if you have any suggestions that would cure the defects in that connection and meet the situation, the committee would be very glad to have you make the suggestions.

Mr. MARSH. Mr. Chairman, I do not know of any simple legal provision which will prevent what I have suggested as likely. Assuming that it is competitively more advantageous to conduct business in Liverpool, Bremen, and Havre than it is on the American exchanges, I do not know of any simple legal method of getting at the transfer of the business to those foreign markets, except to make it a felony for any person resident in the United States to have any dealings whatever, directly or indirectly, on a foreign cotton exchange. I do not know any other method.

Mr. HAWLEY. Well, would you recommend that?

Mr. MARSH. No, sir; I would not.

The CHAIRMAN. That being the case, then, the legislation as an effective piece of legislation would fall, in your opinion, would it?

Mr. MARSH. The legislation, Mr. Chairman, in my opinion, would be effective on the one condition that, as a matter of competition, it remained as advantageous to conduct this business on the American exchanges as it does on the Liverpool, Bremen, and Havre exchanges.

The CHAIRMAN. Now, suppose you apply that standard to the bill and discuss it from that standpoint.

Mr. MARSH. I have had that in mind, Mr. Chairman.

The CHAIRMAN. Well, just develop your own argument, Mr. Marsh.

Mr. MARSH. The essential portions of this bill as affecting the transaction of business of the cotton exchanges are, of course, the sections from 4 to 10. The sections from 11 to the end of the bill are executory sections, and I shall not undertake to speak of them at all.

Let me begin, then, the discussion of these provisions 4 to 10 by calling attention to one primary fact:

It is proposed in this legislation to take the step of doing away with the discretion and custom of cotton merchants as regulative of the cotton trade, and to substitute for it specific legislative provisions, statutory provisions.

Therefore, affairs in the cotton trade have been what I may call self-regulatory. Members of the cotton trade in active competition with each other have been joined in associations known as cotton exchanges. The primary purpose of those associations has been to produce uniformity of practice, fairness and equity as between member and member, and as between members and the public in general.

In those associations, whenever a matter has come up which seemed to cause a grievance or a wrong to one or more members, those members have protested, raised an issue, and the matter has been fought out in the body of merchants constituting the association. A good illustration of that has been brought out in these present hearings. Attention has been called to the fact that very recently, in New York, certain firms feeling themselves aggrieved with regard to the acceptance of cotton by the classification committee of the exchange, wrote letters to the board of managers protesting.

It has been the custom always for any member of the cotton trade in one of these associations, when he felt himself wronged, to bring the matter up, contend for his side of the case as hard as he could, and to as large an extent as possible get his fellow members on his side, and get an adjustment of the matter to his way of thinking if he could.

But in these associations of merchants, the contention of one man, or two men, or three men, has had small chance of adoption, unless those contentions commended themselves to the body of the competitors of those men. The associations have made this change, and that change, and the other change, as this, that, or the other new thing developed in the cotton trade and produced an injustice or an inequality, or something that was undesirable to the trade as a whole. The courts have recognized this custom of the trade.

It is, however, now proposed to substitute for this custom of the trade and this working out of the problems that arise in the trade by the merchants themselves, by statutory provisions. In other words, what has been in the trade, in the experience of the past, the regulatory principle will, with the adoption of this specific legislation, disappear. The merchants will no longer pass upon the complaints of their fellow merchants. They will no longer fight the matter out by discussion among themselves. The rules of the cotton exchanges under this legislation will be the rules laid down by the Government of the United States.

It is very important that this committee should fully comprehend what that means, and I can perhaps better illustrate what it means in the largest sense by simply quoting a phrase of a large dealer in cotton and in contracts for future delivery. He said to me personally that I made a great mistake in urging the protection of cotton producers or cotton manufacturers or anybody else. He said, "Let Congress make the rules and we will play the cards."

That is the situation you have to consider that you are coming to; not a situation that you are coming to by reason of the malev-

olence of men or of their self-seeking or self-interest, but because they can not do anything else. It will no longer be in the hands of the board of governors of the New York Cotton Exchange to discuss and pass upon complaints such as were made by these firms referred to in the hearings.

Those firms, after the adoption of this legislation, will go by the law. If there is any loophole in the law they will get through it, and we can not stop them.

Hence I want to call your attention to the necessity, if you are going to adopt this legislation, of covering the ground in the minutest detail. For example, take the fifth section—

Mr. LEE (interposing). To which bill do you refer, Mr. Marsh?

Mr. MARSH. The Lever bill (H. R. 15318). It says:

*Provided*, That cotton of perished staple, or cotton that is repacked, or false packed or mispacked, or that shows an excess of seed, sand, dirt, or dust, or that shows excessive damage in ginning, or bales containing any pickings or linters, or cotton that is of grade lower than low middling, or lower than strict low middling tinged, or lower than middling stained, or cotton that is less than seven-eighths inch or more than  $1\frac{1}{4}$  inches in length of staple, shall not be delivered on, under, or in settlement of such contract.

Mr. Chairman, there is cotton which is neither repacked, false packed, mix packed, nor showing an excess of sand, seed, dirt, or dust, or excessive damage in ginning, which comes continually into the market, and which under this bill would be deliverable in New York, but which to-day is not deliverable in New York. For instance, water-packed cotton. That is not a mix packed.

The CHAIRMAN. Is it not a false packed?

Mr. MARSH. It is not a false packed, in the proper sense of the term. What is known as water-packed cotton is due to something that takes place in the interior of the bale after the bale has been ginned, and it may be weeks after it has left the gin. It arises from excessive moisture in the cotton at the time of ginning. It may not be apparent to the first buyer nor the second buyer. In fact, in many cases it is not apparent until it actually gets to mill and the bale is torn to pieces.

Mr. JACOWAY. Those terms would include all the compressed cotton, would they not?

Mr. MARSH. These terms here [indicating]?

Mr. JACOWAY. Yes.

Mr. MARSH. I see nothing about compressed cotton in the bill.

Mr. JACOWAY. I say these terms would include compressed cotton, after the cotton has been compressed and then shipped to New York?

Mr. MARSH. Certainly.

Mr. JACOWAY. That is what I thought.

Mr. MARSH. I did not catch your meaning. Now, the point I am making can be brought out by a study of the by-laws of the New York Cotton Exchange, the provisions with regard to cotton that is not deliverable. The first statement is: "All merchantable bales of cotton of American growth presented for certification shall be certificated, provided they are of the character known as square bales and weigh not less than 300 pounds, and are not below the lowest grade tenderable under the by-laws and rules.

"Unmerchantable bales—which shall invariably be rejected—shall be understood to include false-packed bales, thrashed, or machined

cotton, and bales that show an excess of seed, sand, or dirt, rebaled cotton, bales that have been on fire," etc.

Under the provision of the bill as it stands, however, cotton that has been on fire, scorched by fire, would be deliverable on the New York Cotton Exchange contracts.

The CHAIRMAN. What percentage of scorched cotton would there be in an ordinary crop in an ordinary year?

Mr. MARSH. In an ordinary year probably not a great deal; this year a very large quantity. Cotton fires have been exceedingly serious this year.

The CHAIRMAN. How large a quantity, expressed in percentages? One per cent?

Mr. MARSH. I do not know. I can figure up in my mind something like 100,000 bales that have been burned this year of the American crop. There was one single fire in which 28,000 bales were destroyed.

The CHAIRMAN. That would be a very small proportion of the crop of 15,000,000 bales.

Mr. MARSH. That is very true, Mr. Chairman; but if you will remember, it has been contended before this committee all the time that an exceedingly small amount of unmerchantable cotton, reaching New York and delivered on contracts there, affects the price of the whole crop.

The CHAIRMAN. Would a suggestion of leaving the language of the bill as it is, and adding to it some language giving general authority to the Secretary of Agriculture as to what shall be deliverable upon contracts below the grades mentioned here—would that cure that situation in your opinion?

Mr. MARSH. I think it would, Mr. Chairman.

Mr. TAYLOR. What you mean, Mr. Marsh, is that the spinner would get cotton that would be rejected according to your present rules.

Mr. MARSH. Yes; if the bill remains as it is.

Mr. TAYLOR. Naturally, he would be "stuck."

Mr. MARSH. In other words, the moment you fix by statute the terms of delivery of cotton, then anybody and everybody has simply to conform to the terms of the statute, and if the statute does not explicitly exclude this, that, or the other character of cotton, that cotton immediately becomes tenderable on the contract.

Now, please understand, Mr. Chairman, that I am not urging this as an objection to the legislation; I am urging it in favor of extreme care.

The CHAIRMAN. If I understand your position correctly, you are taking up this bill and helping to make it a better bill. Is that the idea?

Mr. MARSH. I am hoping that the legislation which comes out of this committee will be legislation which will be as near perfect as legislation can be.

The CHAIRMAN. And, of course, you understand, and everyone in the room understands, that no one man is able to draw a bill that will be absolutely perfect, and doubtless the legislation which we bring out of this committee will not be perfect; it will have to be amended some day. But we are trying to take the first step along the line of reform which we think is necessary, and we are glad to have your expert opinion to help us to do that.

Mr. HAUGEN. If this Congress provides for Federal standards and classification and grading, would not that eliminate the difficulty you refer to?

Mr. MARSH. The inspectors will be absolutely governed by the statute.

Mr. HAUGEN. But they also fix a standard and determine what the quality and the grade shall be.

Mr. RUBEY. I notice that you are reading from the rules of the New York Cotton Exchange, Mr. Marsh. Are they available to anyone?

Mr. HAUGEN. Have you got a charter of the New York Cotton Exchange, Mr. Marsh?

Mr. CONE. The committee now has a copy of the rules and the charter.

Mr. HAUGEN. If we have a copy, all right.

Mr. MARSH. On this point, then, Mr. Chairman, what I am urging is that there should be some provision similar to the one that you yourself have suggested, under which there can be so minute and so detailed an examination of the matter that there will not be that loophole and these discrepancies under which members of the cotton trade and through them producers and manufacturers will find themselves in a worse fix than they have ever been.

Mr. MAGUIRE. Your idea, then, would be to leave it largely a matter of discretion in the Secretary of Agriculture, giving him general powers?

Mr. MARSH. I do not myself see how it can be effectively done in any other way. I might confess myself to be decidedly skeptical with regard to the ability of any legislative body to cover in a statute all the matters that must necessarily arise in the conduct of so complicated a business as the cotton business.

The CHAIRMAN. The question that I asked you, Mr. Marsh, involved this idea: Let this fifth paragraph of the fifth section of the House bill cover all the known descriptions of cotton that Congress desires shall not be deliverable upon contract and then leave to the Secretary of Agriculture the discretion of the tenderable cotton below the grades and standards fixed in this bill.

Mr. MARSH. They would not necessarily be below the grades and standards.

The CHAIRMAN. Or above what we generally know as "specials." That was the idea I had in mind. I do not know that I would favor that proposition and push the proposition myself, and, personally, I would not be willing at this time, certainly, to give the Secretary this tremendous power of saying what shall be and what shall not be deliverable upon contracts except in a very limited way where the power would not be very great after all. That is the view I have in mind.

Mr. TAYLOR. Do you mean the power to promulgate rules from time to time in regard to this, Mr. Chairman?

The CHAIRMAN. Yes; I would give power to the Secretary of Agriculture to fix rules as to whether present cotton below the limit shall be deliverable or not.

Mr. TAYLOR. The same as the Commissioner of Immigration has power to make rules?

The CHAIRMAN. Yes; but that is only a tentative suggestion.

Mr. DOOLITTLE. You mean other than those which are specifically eliminated in the law, do you, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. MAGUIRE. If we permit the rules to be adopted from time to time by the Secretary of Agriculture, would not that create uncertainty?

Mr. MARAH. Unquestionably.

Mr. TAYLOR. What we are trying to do is to keep out of the courts and you can not do it. You will have to carry the matter to them from time to time for interpretation. You can not keep away from them no matter what you do.

Mr. MARSH. We are apprehensive on that point; but we desire, if it is humanly possible, that we should be enabled to keep away from the law.

Mr. HUMPHREYS of Mississippi. Mr. Marsh, do you think it would cover the case if you should add, for instance, in line 19, page 4, in that fifth subdivision to which you referred, after the word "linters," which is the last word enumerating the various kinds of cotton that are not deliverable—would it be practicable and workable if you insert there the words, "or otherwise unmerchantable cotton"?

Mr. TAYLOR. You see that would leave it to the courts to determine what "unmerchantable" means.

Mr. HUMPHREYS of Mississippi. It would leave it to somebody, undoubtedly.

Mr. MARSH. You see you have this situation: There is something new coming up in the cotton trade all the time. A few years ago we did not know anything about bolley or machined cotton. Then somebody discovered a mechanical process for separating the outer shell of the boll from the lint. That machinery was little by little, perfected. The machinery began to be put in first in Oklahoma, at the very north of the belt, where there is a good deal of belated cotton which is touched by frost and does not open naturally up there in that country. They began to pick these frosted cotton bolls by hand, and then they put them into the machinery and thrashed them out and then ginned the cotton as it is ordinarily ginned. That gave us bolley cotton. Then we had some people who discovered mechanical processes by which they can take low-grade cotton and samples and what not and, by beating it up and forcing air through it and manipulating it in strong currents of air, can get the dirt and the leaf out of it. That is what we call machine cotton proper. There is one established in Houston, Tex., running night and day, taking the low-grade cottons of Texas and transforming them into cottons which to the superficial observer look as valuable as cotton picked in the field and naturally ginned. As a matter of fact, when you get those cottons to the mills the waste is inordinate, and for this reason those cottons are not deliverable on contracts on the exchange. Now, another thing has come up this year. Through the South the impression is—and it is an impression which has been decidedly cultivated, I may say, by the manner of buying cotton—that the great question is the question of grade—the higher you can get the grade of your cotton, the higher the price you are going to get for it. There has been recently invented a machine which is put into the intake pipe of the gin plant, a machine called the Rogers's cleaner, and this Rogers's cleaner has a mass of revolving

beaters and toothed wheels, and one thing and another, and as the cotton is sucked through the intake pipe it goes through this cleaner and is beaten up and opened out, and a lot of trash and dirt, and so on, is removed from it. When you gin that cotton it looks to the superficial observer just as good as cotton picked in the field and ginned straight. But when you examine it carefully with a microscope you find that in going through this mass of rapidly revolving machinery it has got knotted up and twisted up, and there are actually pieces of yarn in it, and its merchantability is changed from the merchant's ability of straight cotton to the merchantable of something that the spinner has got to put through a special process to get into shape for his machinery. Now, that has only become an important matter this year. Next year there will be something else.

Mr. HUMPHREYS of Mississippi. Well, would not that term "otherwise unmerchantable" cover that whole field?

Mr. TAYLOR. It does in the case of real estate.

Mr. MARSH. Well, now, here is a thing that the spinners are buying which is not enumerated.

Mr. HUMPHREYS of Mississippi. Well, you say they are buying bollies?

Mr. MARSH. Well, are bollies cotton enumerated in the bill? I do not know.

Mr. HUMPHREYS of Mississippi. Yes; it is supposed to exclude bollies, false packed, mixpacked, and so on. Your suggestion was that we ought to be careful enough to include everything in the description of nondeliverable cotton, which to my mind is an impossibility. So that impressed me that it might be desirable to put words in the bill that would be, when reasonably and fairly interpreted, sufficient to cover whatever happens to be left out, so that it would not be possible to tender burnt cotton, for instance, which can not be tendered now, or any other cotton which can not be tendered now that was not enumerated in the bill.

Mr. MARSH. In whom would you leave the decision as to whether cotton is or is not merchantable?

Mr. HUMPHREYS of Mississippi. I do not know. The administrative features of the bill would have to be adjusted to meet that. But I do not think that is impossible, any more than it is impossible to declare what is a reasonable time, or reasonable notice, or a reasonable railroad rate.

The CHAIRMAN. Would it not be better, in your judgment, to exclude specifically all the things which we think ought to be excluded and which we can think of and cover the rest with a blanket proposition. I would have in mind the Secretary of Agriculture as the umpire to decide whether or not things covered under that blanket provision should be tenderable.

Mr. TAYLOR. Give him power to promulgate rules from time to time?

The CHAIRMAN. He could do that.

Mr. HUMPHREYS of Mississippi. He could declare what was unmerchantable just as well as your board of governors.

The CHAIRMAN. Yes; it is merely a question of putting the decision with some administrative authority to determine as to this poor cotton that is new to the trade.

Mr. HUMPHREYS of Mississippi. Well, after enumerating various kinds, would you not have to put in some general terms?

The CHAIRMAN. Yes; but just what that term should be is a question.

Mr. TAYLOR. Did not the chairman hit it right just now when he spoke of its being unusual and new to the trade?

The CHAIRMAN. That matter could be very easily worked out if the committee is willing to trust some administrative branch of the Government to handle it.

Mr. MARSH. The next matter which I would like to discuss a little is the matter of the length of staple. Nobody really knows the proportion of the cotton crops of the United States below three-fourths of an inch, below seven-eighths of an inch, and above seven-eighths of an inch in length of staple. As a matter of fact the proportions vary very widely from year to year. The effect of drought on the length of staple is very well known. In the Atlantic States the drought produces a very large quantity of short staple. How much of that cotton is under three-fourths of an inch we have no statistics to show; how much of it is under seven-eighths of an inch we have no statistics to show. We know that some of it is under five-eighths of an inch, but we do not know for a series of seasons, covering normal seasons, wet seasons, and drought seasons, what we have to meet in the way of staples under either three-fourths of an inch or seven-eighths of an inch.

When the Lever bill was first published so that it came into my hands, and into the hands of the officers of the New York Cotton Exchange, we thought it desirable to get such information as we could on this subject, and also on the subject of the proportions of grades of cotton.

Accordingly we wrote to a very large number of cotton merchants scattered all over the South a letter to this effect:

DEAR SIRS: We are desirous of obtaining, at as early a date as possible, information with regard to the relative proportion in the cotton crop of the United States of the higher and lower grades of cotton and of the cotton having a staple of greater or lesser length than seven-eighths of an inch and three-fourths of an inch.

We should appreciate it if you would, on the inclosed blank, give us your opinion on these points. We understand, of course, that exact figures are probably unobtainable, but perhaps you can use the run of your own purchases of cotton in the districts where you buy as a basis for estimates which will closely approximate the facts.

Now the blanks that we sent out contained four questions, each requiring two answers.

The first question was:

Approximately what percentage of the crop in your section do you estimate to have a length of staple under seven-eighths of an inch?

And the subdivisions of the questions were: "In a normal season" and "In a drought season."

The second question was:

Approximately what percentage of the crop in your section do you estimate to have a staple under three-fourths of an inch?

Again it was subdivided into "In a normal season" and "In a drought."



The third question was:

Approximately what percentage of the crop in your section do you estimate to be lower in grade than the Government type of good ordinary, in white cotton, or lower than good middling tinged and middling stained?

Again, there were two subdivisions, "In a normal season" and "In a season like 1906-1907, or like 1913-1914," the 1906-1907 crop being a crop in which the great Mobile storm took place and the entire crop of the Mississippi Valley, Alabama, and western Georgia was so tremendously reduced in grade.

And, finally, the fourth question was:

Approximately what percentage of the crop of your section do you estimate to be lower in grade than the government type of low middling, and lower than strict low middling tinged, or middling stained?

Now, we received something like 100 answers from representative cotton firms in every State in the South. I think the total number here is 110 [indicating paper].

Mr. CONE. Something less than that, between 105 and 110.

Mr. MARSH. Between 105 and 110; and every State in the South is represented. And the first thing that stands out from the answers, which I have tabulated here [indicating] and which I should like to leave with the committee as an exhibit—

The CHAIRMAN (interposing). Do you desire to have it made a part of the record?

Mr. MARSH. Yes; I do.

The CHAIRMAN. Without objection, it will be made a part of the record.

(The table referred to is as follows:)

## ALABAMA.

Name.	City.	Staple under seven-eighths.		Staple under three-fourths.		Below good ordinary.		Below low middling.	
		Normal year.	Drought year.	Normal year.	Drought year.	Normal year.	Low-grade year.	Normal year.	Low-grade year.
		Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
J. B. Fisk Cotton Co.	Montgomery..	None.	None.	None.	None.	1	2	3	6
Harris Cortner & Co.	Anniston.....	10	15	5	10	2	6	12	12
T. D. Maybank & Co.	do.....	5	10	None.	2	5	10	12	12
Wall Bros.	Montgomery..	None.	5	None.	None.	2-3	5-8	8-12	8
C. H. Minge & Co.	Mobile.....	None.	None.	None.	None.	2	2	2	3
Burt & Nabers Cotton Co.	Birmingham..	None.	None.	None.	None.	1	2-4	2	3-6
Jones Cotton Co.	Decatur.....	10	None.	Negl.	None.	Negl.	Negl.	1/2 of 1	None.
Elmore Brame & Co.	Montgomery..	5	10	None.	5	5	5-15	15	15-30
W. P. Welch & Co.	Selma.....	1	5	None.	None.	4	14	3	10
T. P. Hudmon	Opelika.....	10	No dif.	2	No dif.	5	No dif.	8	No dif.
J. H. Arnold & Co.	Gadsden.....	None.	10	None.	None.	None.	10	5-10	10-20

## ARKANSAS.

C. C. Burrow & Co.	Morrilton.....	5	15	3	10	5	15-25	10	15-20
E. F. Buffington & Co.	Hope.....	None.	5	None.	1	None.	2	5	25
J. M. Altman.....	Fort Smith.....	None.	7	None.	None.	10	20	20	30
J. B. Speers Co.	Pine Bluff.....	None.	None.	None.	None.	2	10	10	40-50
L. P. Baskdull & Co.	Fort Smith.....	None.	10	None.	None.	5	15	15	25
S. C. Alexander.....	Pine Bluff.....	1	1	None.	None.	1/2 of 1	6-8	3-4	25-33 1/2
C. A. Wooten & Co.	Helena.....	None.	25	None.	10	10	25	25	50

## GEORGIA.

Name.	City.	Staple under seven-eighths.		Staple under three-fourths.		Below good ordinary.		Below low midling.	
		Normal year.	Drought year.	Normal year.	Drought year.	Normal year.	Low-grade year.	Normal year.	Low-grade year.
M. M. Stewart.....	Savannah.....	Per cent. All.	Per cent. All.	Per cent. (1) All.	Per cent. (1) All.	Per cent. (7) 1-3	Per cent. (7) 2	Per cent. (1) 5	Per cent. (1) 5-6
W. O. Jones.....	Elberton.....	None.	5	None.	None.	None.	2	None.	5-6
J. S. Wood & Bro....	Savannah.....	All.		All.		1-3		5	
Geo. H. McFadden & Bro. Agency.	do.....	(2)	(2)	(2)	(2)	1-2 1/2	1-2 1/2	1-1	1-1
Taylor Cotton Co....	Macon.....	None.	30	None.	None.	None.	20	20	45
J. B. Holst Co.....	Columbus.....	5	10	None.	5	3	5	7	10
Scottsdale Mills....	Scottsdale.....	1-1 in.	1-1 in.			1	11	15	11
Howell Cotton Co....	Rome.....	None.	None.	None.	None.	None.	None.	None.	None.
Geo. H. McFadden & Bro. Agency.	Atlanta.....	None.	None.	None.	None.	None.	1-2	None.	1-2
J. E. Talmadge.....	Monticello.....	None.	None.	None.	None.	3	6	2	5
Inman, Ackers & Inman.	Atlanta.....	None.	None.	None.	None.	Not 1	2-3	1	3-4
R. C. Neely.....	Waynesboro....	None.	30	None.	None.	20	40-50	30	50-60
W. A. Gilreath & Co.	Atlanta.....	1/2	1/2	1/2	1/2	None.	1/2	1/2	1/2
L. F. Humber.....	Columbus.....	1/2	1/2	1/2	1/2	1/2	1/2	1/2	1/2
H. F. Dutton.....	Gainesville....	None.	None.	None.	None.	None.	None.	None.	None.
E. G. Ehney & Co....	Atlanta.....	None.	(1)	None.	None.	(1)	None.	None.	None.
Maddox-Rucker Co..	do.....	None.	2	None.	None.	None.	None.	None.	None.
Georgia Cotton Co....	Albany.....	25	40	None.	25	6		15	10
L. G. Bowers.....	Columbus.....	10-15	20-30	5	10-15	5	5	10	10
S. C. Baker.....	Atlanta.....	None.	None.	None.	None.	10	20	10	25
C. W. Smith & Son..	Cedartown.....	None.	None.	None.		25	15	30	20

## NORTH CAROLINA.

Barbee & Co.....	Raleigh.....	Not 5	15	1	5	None.	2-15	None.	2-15
J. H. Cutter & Co....	Charlotte.....	5	20		10	5	15	10	20
Sanders, Orr & Co....	do.....	5	10	2	5	5	10	8	15
J. E. Latham.....	Greensboro....	2	15	None.	None.	None.	8-10	1	10-15
J. M. Fairley.....	Monroe.....	10	15	1	1	5	10	10	20
Alex. Sprunt & Son..	Wilmington....	1 or 2	2 or 3	None.	None.	5	7	8	12
T. W. Wade.....	Charlotte.....	6	10	3	8	2	4	8	15
Sol. Cons.....	Greensboro....	10	15-20	2	3-4	2	3-4	15	20-25
Jas. N. Williams & Sons.	Burlington....	50	25	50	75	None.	(1)	None.	None.
Cotter Underwood Co	Smithfield....	100	100			30	60	20	30

## SOUTH CAROLINA.

W. W. Gaines.....	Ninety-Six....	20	35	10	20	10	15	18	25
G. W. Gignilliat & Son.	Seneca.....	None.	10	None.	None.	None.	None.	3	5
D. M. D. McLeod....	Bennettsville..	80	90-100	80-75		10-15	10	20-25	25
F. P. Burgess.....	Manning.....	25	40	5	5	5	5	10	10
Elbert W. Copeland.	Laurens.....	None.	None.	None.	None.	None.	None.	None.	None.
O'Donnell & Co....	Sumter.....	12	18	5	7	5-7	10-12	15-16 1/2	
Harby & Co.....	do.....	10	20	None.	None.	None.	10	20	30
J. L. Coker & Co....	Hartsville....	1	2	None.	(1)	1	5	5	20
J. M. Farrell.....	Blackville....	25	35	10	25	20	(1)	25	
Leroy Springs & Co..	Lancaster.....	10	12	2	2	1	2	2	3
D. M. Dew.....	Latta.....	15-20	20-30	3-5	5-10	5	25	20	40
Farmers & Spinners' Cotton Co.	Charleston....	15-20	20-30	3-5	5-10	5-7	2-3	7-8	3-4
T. S. Johnston.....	Rockhill.....	10	20		5	15	20	25	30
Maybank & Co.....	Charleston....	None.	5	None.	None.	2	1	3	2

## LOUISIANA.

Herman Loeb.....	Shreveport....	10	25	None.	10	5	35	30	50
Geo. H. McFadden & Bro. Agency.	New Orleans..	1/2 of 1	1/2 of 1	None.	None.	5-20	25-50	20-30	40-60

1 Linters.  
2 Nominal.

3 Very little.  
4 Not over 1 per cent.

5 Normal.  
6 Or less.

## MISSISSIPPI.

Name.	City.	Staple under seven-eighths.		Staple under three-fourths.		Below good ordinary.		Below low mid-ling.	
		Normal year.	Drought year.	Normal year.	Drought year.	Normal year.	Low-grade year.	Normal year.	Low-grade year.
Stanley Henshaw.....	Greenville.....	Per cent. None.	Per cent. None.	Per cent. None.	Per cent. None.	Per cent. 5	Per cent. 15-60	Per cent. 20	Per cent. 35-80
T. H. Craig.....	Yazoo City.....	None.	5	None.	None.	3	20-25	6	20-25
W. M. Drake.....	Vicksburg.....	None.	5	None.	None.	15	30	25	45
F. P. Phillips.....	Columbus.....	2	5	$\frac{1}{2}$ of 1	1	$\frac{1}{2}$ of 1	$\frac{1}{2}$ of 1	$\frac{1}{2}$ of 1	1
Threefoot Bros. & Co.	Meridian.....	25	.....	1	.....	None.	$\frac{1}{2}$ of 1	$\frac{1}{2}$	2
Humphrey & Co.....	Greenwood.....	None.	5	None.	None.	3	8-20	10	25-40
W. J. Davis & Co.....	Jackson.....	None.	20	None.	None.	None.	10	10	25
W. C. Craig & Co.....	Vicksburg.....	None.	5	None.	None.	20	40	35	60

## MISSOURI.

Lesser Goldman Cotton Co.....	St. Louis.....	5-7	10-18	None.	None.	5-7	15	10-15	20-25
G. S. Tiffany.....	.....do.....	4	10	None.	None.	15	35-60	25	45-70

## OKLAHOMA.

Anderson, Clayton & Co.	Oklahoma....	None.	2 or 3	None.	None.	10	25	33 $\frac{1}{2}$	60
Love & Thurmond..	Ardmore.....	None.	None.	None.	None.	None.	None.	20	.....
C. F. Witherspoon & Sons.	Chickasha.....	None.	None.	None.	None.	5	10	25	40
Frierson Bros.....	Ada.....	None.	5	None.	None.	3	10	5	15

## TENNESSEE.

J. D. Gabel & Co...	Memphis.....	None.	5	None.	None.	15	15-75	15-25	25-80
Farnsworth Evans Co.	.....do.....	None.	1	None.	None.	2	7	5	14
Stewart Gwynne Co.	.....do.....	10	12	3	4	20	30	25	35
Dillard & Coffin Co.	.....do.....	1	2	None.	None.	7	10-40	15	20-60
Jos. Newburger.....	.....do.....	All.	$\frac{1}{2}$	All.	.....	5-10	20	10-20	33 $\frac{1}{2}$
Grantland Cotton Co.	Nashville.....	None.	None.	None.	None.	7	( <sup>1</sup> )	5	( <sup>1</sup> )
L. K. Salisbury.....	Memphis.....	30	45	10	5	10	25	20	30

## NORFOLK, VA.

Fergus Reid.....	Norfolk.....	None.	None.	None.	None.	( <sup>1</sup> )	( <sup>2</sup> )	( <sup>3</sup> )	( <sup>4</sup> )
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## TEXAS.

B. W. Lotspeich.....	Abilene.....	None.	20	None.	None.	None.	1	10	20
E. H. Perry & Co....	Austin.....	5	15	None.	None.	5	25	20	50
G. R. Bennett.....	.....do.....	None.	10	None.	None.	1	5	5	25
Polk-Wilson & Co....	Barlett.....	None.	None.	None.	None.	1 $\frac{1}{2}$	4	10	18
King Cotton Co.....	Dallas.....	None.	None.	None.	None.	3	6-10	6	12-20
H. L. Edwards & Co.	.....do.....	8	25	2 $\frac{1}{2}$	10	3	20	10	30
Wm. B. Starr & Co..	.....do.....	None.	None.	None.	None.	2	5	4	8
A. L. Wolf & Co.....	.....do.....	None.	5-10	None.	( <sup>1</sup> )	5	15	15-20	25-30
C. F. Witherspoon..	Denton.....	None.	None.	None.	None.	20	60	30	65
Tom B. Owens & Co.	Fort Worth.....	None.	20-40	None.	None.	5	10	10	20
K. Tidemann & Co..	.....do.....	None.	25	None.	10	6	15	10	23
Eustace Taylor.....	Galveston.....	6-7	15-20	( <sup>1</sup> )	2-3	4	17	12	30
Wilson Moodie.....	Gainesville.....	None.	7 $\frac{1}{2}$	None.	5	3	10	10	20
Blocker Miller Co....	Honey Grove.....	None.	None.	None.	None.	10	25	25	50
R. R. Dancy & Co....	Houston.....	None.	None.	None.	None.	10	40	20	65
Dorrance & Co.....	.....do.....	None.	None.	None.	None.	None.	8	$\frac{1}{2}$ -2	11-37
T. A. Johnson.....	Paris.....	None.	4	None.	None.	10	25	20	40
Wilde & Orme.....	.....do.....	None.	None.	None.	None.	10-15	30	10	20
A. A. Zislis.....	Taylor.....	10	25	10	20	5	25	25	60
James T. Brook.....	Waco.....	10	30	None.	15-20	10	20	15	30
Crespi & Co.....	.....do.....	None.	20	None.	None.	2	7	10	25

\*Normal.

\* Do not know.

\* Hardly any.

\* Barely 1 per cent.

Mr. RICE. Does that table give the names of the cotton merchants who replied to your letter?

Mr. MARSH. Yes; and the localities.

The CHAIRMAN. Does it give the number of bales represented by the replies?

Mr. MARSH. It does not.

Mr. LEE. It gives the per cent only, does it?

Mr. MARSH. It gives the per cent only.

Mr. TAYLOR. Of course you would not want to ask for the number of bales?

Mr. MARSH. We did not feel like going so far as to ask for the number of bales, because that would involve giving information as to the volume of business done by each of these firms.

Mr. TAYLOR. This question has occurred to me: You speak about giving the Secretary of Agriculture power to make rules. Now, assume that some man had entered into a contract to deliver a certain grade of cotton. It is discovered that that grade of cotton is not merchantable or not usable and not deliverable under this provision. Suppose the Secretary makes a rule covering that situation. He should not be allowed to interfere with the contract.

Mr. MARSH. Of course you might there get into a legal tangle. There is no dodging that fact. You are affecting outstanding contracts.

Mr. TAYLOR. That would be unconstitutional, I should think.

Mr. MARSH. Well, as I am not a lawyer, I must leave that point to the committee.

Mr. TAYLOR. Well, the Constitution expresses itself on that. You can not interfere with the contractual rights or obligations of anyone, either by legislation or by rules that come from legislation. The only thing you can do is to authorize him to promulgate certain rules which are not to affect outstanding contracts or contractual obligations as then existing.

Mr. MARSH. It goes without saying, Mr. Taylor, that that is an exceedingly important point, and it is an exceedingly important point with regard to this legislation as a whole. There will be at any given moment, on both the New Orleans and the New York Cotton Exchange, outstanding contracts running for 12 months ahead.

Mr. TAYLOR. Well, we had this simple case in New York, as you know, where the legislature provided that you, a real estate man, could not sell a piece of real estate unless you gave a written memorandum, and our courts determined that that was absolutely unconstitutional. Now, that was as simple a case as you could get.

The CHAIRMAN. All right, Mr. Marsh; suppose you proceed with your statement where you left off.

Mr. MARSH. I want to say in regard to these figures on this table that what stands out immediately when you read them is that nobody knows these facts with any precision. Now, take the question of the proportion of the crop under seven-eighths of an inch in staple in a normal year.

I will take the State of Alabama to begin with. J. B. Fisk Cotton Co., Montgomery, say that there is none; Harris Cortner & Co., of Anniston, say 10 per cent in a normal year; and Maybank & Co., of Anniston, say it is 5 per cent; Weil Bros., of Montgomery, say

none; C. H. Minge & Co., of Mobile, say none; Burt & Nabers Cotton Co., of Birmingham, none; Jones Cotton Co., of Decatur, say 10 per cent; Elmore Brame & Co., Montgomery, 5 per cent; W. P. Welch & Co., Selma, say 1 per cent; T. P. Hudmon, Opelika, says 10 per cent; J. H. Arnold & Co., Gadsden, say none. Now, that is for a normal year, not a drought year.

Now, take the answers for a drought year:

J. B. Fisk Cotton Co., Montgomery, none; Harris Cortner & Co., Anniston, 15 per cent; T. D. Maybank & Co., 10 per cent; Weil Bros., 5 per cent; C. H. Minge & Co., none; Burt & Nabers Cotton Co., none; Jones Cotton Co., none; Elmore Brame & Co., 10 per cent; W. P. Welch & Co., 5 per cent; T. P. Hudmon, no difference; J. H. Arnold & Co., 10 per cent.

That is for staple under seven-eighths of an inch in length in Alabama.

Mr. GLENNY. May I interrupt you there?

Mr. MARSH. Certainly.

Mr. GLENNY. As a matter of fact, is it not true that when you buy cotton of ordinary staple you do not pull and measure the staple?

Mr. MARSH. Mr. Glenny, that is a point that I am coming to and I am glad that you brought it out at this particular moment. I want to call the attention of the committee to the fact that there is an enormous difference between a statutory provision that cotton must be seven-eighths of an inch in length and a custom of the trade that cotton is seven-eighths inch in length—an enormous difference. If you have a statutory provision that cotton must be seven-eighths of an inch in length, the actual measured length of the fiber must be seven-eighths of an inch in length.

Now, that is a test to which cotton has not been put by the cotton trade. In the cotton trade the length of fiber is not determined with mechanical accuracy, and it has actually happened, I believe, that in the Department of Agriculture they have discovered that cotton merchants call cotton with a "strong pull," as it is called, and thought to be longer in fiber than cotton of a weak character and a "poor pull," when, as a matter of fact, the cotton with the "strong pull" is the shorter in fiber.

Mr. LEE. Would not the cotton mill and the spinners know the difference?

Mr. MARSH. I suppose they would; I do not know about that; I do not know whether they keep statistics on that subject or not. But in the cotton trade, it is certain that the statutory provision for a minimum of seven-eighths of an inch in length is going to exclude from deliveries on contracts a very large amount of cotton, which in the trade in its normal course would pass as seven-eighths of an inch.

There is another point in that same connection, and that is that experience shows that the moment there is a danger line people who are delivering cotton want to leave a margin of safety between their cotton and the danger line. For example, as regards the New York Cotton Exchange this year there has been a sudden and extraordinary decline in the amount of good ordinary cotton shipped to New York for delivery, and the reason is that the impression has

got out that the exchange is very severe on that lowest grade of deliverable cotton.

Consequently, it may be said that the southern shipper to-day will not take any chances in shipping good ordinary cotton to New York, and if you make a statutory limit of seven-eighths-inch staple you may be sure that the southern shipper will not take any chances of shipping seven-eighths of an inch cotton. For cotton-exchange delivery he will certainly make fifteen-sixteenths of an inch his lower limit.

The CHAIRMAN. Did you say fifteen-sixteenths?

Mr. MARSH. Yes; he will certainly make fifteen-sixteenths of an inch his lower limit.

Mr. GLENNY. Along those same lines,  $1\frac{1}{2}$  inch in New Bedford, Mass., is one length, and  $1\frac{1}{2}$  inch in southern mills is quite another length. Is that not true?

Mr. MARSH. That is true, as I once found out at large expense to myself.

I now come to the shorter staple, the three-fourths of an inch staple, and I find that, of these Alabama firms, only two give any amount of cotton as produced in their section under three-fourths of an inch. Harris Cortner & Co., of Anniston, say that 5 per cent of the cotton produced in their section in a normal year is under three-fourths of an inch, and in a drouth year 10 per cent.

Mr. TAYLOR. When they refer to three-fourths of an inch, they are using your merchantable custom, are they not?

Mr. MARSH. That is what they are doing. These estimates are not only at variance with themselves, but they are also, in my opinion, utterly at variance with the result which will be had when the mechanical statutory requirement is imposed.

Mr. TAYLOR. You mean when you go into court with a custom of merchants and with a statute, you have two different situations?

Mr. MARSH. Oh, absolutely different.

Mr. TAYLOR. One of them is give and take and the other is strict?

Mr. MARSH. Yes; there is give and take in the custom of the trade as there can not be in the carrying out of the provisions of the statute.

Mr. TAYLOR. Of course, we meet that in the real estate market in New York wherever they have a slight proportion of an inch in a contract.

Mr. MARSH. Yes. Now, of course, the more sections illustrative of these staples are in the States of North Carolina, South Carolina, and Georgia. Taking the State of North Carolina, we find that every firm reporting from North Carolina gives the length of staple in the normal season under seven-eighths of an inch as a fairly good percentage of the production of the section.

Barbee & Co., of Raleigh, say that in a normal year 5 per cent of the production is under seven-eighths inch. J. H. Cutter & Co., Charlotte, say that 5 per cent is less than seven-eighths inch. Sanders, Orr & Co., of Charlotte, 5 per cent. J. E. Latham, of Greensboro, 2 per cent. J. M. Fairley, of Monroe, 10 per cent. Alexander Sprunt & Son, of Wilmington, 1 or 2 per cent. T. W. Wade, of Charlotte, 6 per cent. Solomon Cone, of Greensboro, 10 per cent. James N. Williamson & Sons, of Burlington, 50 per cent. Cotter Underwood Co., of Smithfield, 100 per cent.

For a drought year these same firms report as follows:

Barbee & Co., report 13 per cent; J. H. Cutter & Co., 20 per cent; Sanders, Orr & Co., 10 per cent; J. E. Latham, 15 per cent; J. M. Fairley, 15 per cent; Alexander Sprunt & Son, 2 or 3 per cent; T. W. Wade, 10 per cent; Solomon Cone, 15 or 20 per cent; James N. Williamson & Sons, 25 per cent; Cotter Underwood Co., 100 per cent.

When you come to the three-fourths staples, the proportions are very much smaller.

Mr. HUMPHREYS of Mississippi. How do you account for that Smithfield estimate?

Mr. MARSH. I am unable to account for that myself. I do not know the character of the section.

In South Carolina the percentages of staples under three-fourths of an inch are as follows:

W. W. Gaines, of Ninety Six (that is the name of the town), 20 per cent in a normal year, and 35 per cent in a drought year; G. W. Gignilliatt & Son, of Seneca, none in a normal year, 20 per cent in a drought year; D. M. D. McLeod, of Bennettsville, 80 per cent in a normal year, and from 90 to 100 per cent in a drought year; F. P. Burgess, of Manning, 25 per cent in a normal year, and 40 per cent in a drought year; Elbert W. Copeland, of Laurens, none in a normal and none in a drought year; O'Donnell & Co., of Sumter, 12 per cent in a normal year, and 18 per cent in a drought year; Harby & Co., of Sumter, 10 per cent in a normal year, and 20 per cent in a drought year; J. L. Coker & Co., of Hartsville, 1 per cent in a normal year, and 2 per cent in a drought year.

Mr. PARKER. Just one minute. Take Mr. Coker. Is he not recognized as the most experienced and intelligent planter in the South, or one of the most experienced and intelligent?

Mr. MARSH. He undoubtedly is recognized as a very experienced planter, and as having done a great deal for the industry.

The CHAIRMAN. And may I inquire if Mr. O'Donnell, of Sumter, is not largely a wholesale merchant and retail merchant rather than a cotton buyer?

Mr. PARKER. And let me ask if Mr. Coker does not make a specialty of determining the length of staple of cotton?

Mr. MARSH. Breeding cottons?

Mr. PARKER. Yes; breeding cottons, and determining their length—testing their length. He is right in the sand belt, too.

Mr. MARSH. Yes. I should like to ask just where Hartsville is?

Mr. PARKER. It is within 20 miles of Lumberton. Let me add that Hartsville is in the sand belt, and yet Mr. Coker has been able, in the sand belt, to grow the best 1½-inch crop of cotton grown to-day in the United States.

Mr. MARSH. I give these figures for what they are worth. J. M. Farrell, of Blacksville, 25 per cent in a normal year and 35 per cent in a drought year.

Leroy Springs & Co., of Lancaster, 10 per cent or less in a normal year and 25 per cent or less in a drought year.

The firm of Leroy Springs & Co., is one of the most prominent spinners in South Carolina.

D. W. Dow, of Latta, has given three-eighths of 1 per cent in a normal year and one-half of 1 per cent in a drought year, which I suppose is wrong.

Farmers & Spinners Cotton Co., of Charleston, 15 to 20 per cent in a normal year and 20 to 30 per cent in a drought year.

T. S. Johnston, of Rockhill, 10 per cent in a normal year, 20 per cent in a drought year.

Maybank & Co., of Charleston, none in a normal year, 5 per cent in a drought year.

Now, those are illustrations of the variety of opinions, and I think of the absolute unreliability of opinions on the subject of proportions of the crop having a staple over or under seven-eighths of an inch and over or under three-fourths of an inch.

Mr. PARKER. Let me emphasize this, in connection with Leroy Springs & Co., to which you refer. Now, I have a mill right adjoining Lancaster County, in Chester. The western part of Lancaster County adjoins Chester. Lancaster County produces just as good cotton as there is in South Carolina, and yet in Chester County, adjoining it, I am unable to buy a bale of cotton for my mill in Chester, because my friends around there will insist on using the King seed, which produces a staple of less than seven-eighths of an inch.

Mr. TAYLOR. Suppose we amend that section of the bill, Mr. Marsh, to read "not less than seven-eighths of an inch, according to the custom of merchants as now established"; would that meet the situation?

Mr. MARSH. I do not think so; you would introduce an element of great uncertainty there.

Mr. TAYLOR. Yes; that is right.

Mr. MARSH. I think that would be entirely impracticable. It seems to me that we must proceed either by statute or by the custom of merchants.

Mr. MAGUIRE. Through the improvement of varieties of cotton, has the length of staple changed very much in recent years?

Mr. MARSH. We have a peculiar situation in that respect. If you follow the reports of the Department of Agriculture on the subject of improvements in varieties of cotton, you will find that we have comment on the fact that farmers frequently take up improved varieties of cotton, and find that they do not make so much money out of them as they do out of the poorer varieties, and so they go back to the poorer varieties. We have in South Carolina a very remarkable illustration of that situation. The banner-producing county of South Carolina is Marlboro County. It produced more cotton per acre than any other county in the United States.

The farmers of Marlboro County plant King seed and Peterkin seed, which produces short-staple cotton and cotton which Mr. Parker says he can not use in his mill. Efforts have been made by Mr. Parker and Mr. Leroy Springs and others to get the farmers of Marlboro County to abandon the use of this seed and plant seed which will give a staple of an inch, at least. I am informed their answer has been that they make more money planting the seed they are now planting; if there is a market for their cotton, as there undoubtedly is—the Germans are willing to take it—that they see no reason why they should abandon the more profitable cotton for the less profitable cotton.



The CHAIRMAN. Mr. Marsh, is it not a fact that practically every bale of cotton produced in Bennettsville, S. C., is sold for export through Charleston on type, or Wilmington.

Mr. MARSH. Sold on type?

The CHAIRMAN. Yes.

Mr. MARSH. I should think that very doubtful. I can not answer decisively, but I should think it was very doubtful whether that cotton is sold on type. Perhaps Mr. Millett will know.

Mr. MILLETT. I do not know.

The CHAIRMAN. My information yesterday, after the hearing, from a gentleman then appearing before the committee, is that practically all of the cotton at Bennettsville is sold through Charleston and Wilmington for export on type. That is the only information I have about it.

Mr. MARSH. In any case, it is obvious that involved in this matter of length of staple is legislation directed against the southern cotton producers who find it more profitable to produce a short-staple cotton and that they will object to it. That is a fact you have to face, because you are going to hear from it here.

Mr. HUMPHREYS of Mississippi. If this seven-eighths inch remains in the bill and such cotton is not permitted to be delivered on contract the tendency then would be of that legislation to depress the price of that character of cotton?

Mr. MARSH. It is always the result of excluding cotton from delivery on exchanges that the price is seriously depressed. There is this qualification, however, in this present case. Take the cotton from Marlboro County, S. C. That cotton is not bought by southern spinners. It is all exported. It is greatly desired abroad. It is produced by very high class farmers, and it is very carefully ginned and prepared for market, and it is greatly desired and there is a very good market for it abroad. It therefore seems to me improbable that that particular cotton produced in Marlboro County, S. C., would be depreciated in value if the American exchanges only were to exclude it from delivery.

The CHAIRMAN. Mr. Marsh, what would be your suggestion as to the length of staple? Would you make it five-eighths or three-quarters or thirteen-sixteenths or what?

Mr. MARSH. Mr. Chairman, in the New York Cotton Exchange itself I have advocated the limitation of staple to five-eighths of an inch.

The CHAIRMAN. Five-eighths of an inch?

Mr. MARSH. Nothing below that to be deliverable at all, and the penalization of any cotton under seven-eighths of an inch. I think there is force in the contention that some pressure may fairly be brought to bear on farmers by spinners to produce a grade of cotton superior for general use to that cotton which is produced from the King and Peterkin seeds.

The CHAIRMAN. And do you recognize the importance of fixing a minimum length of staple to be delivered?

Mr. MARSH. I think, and I may here give the reason why, perhaps five-eighths of an inch is the minimum. The place American-grown cotton now holds in the market, as compared with cotton grown in India and China, is largely dependent upon the superiority

of character of American cotton. There is produced in India only a very small amount of cotton which is as long in fiber as full five-eighths of an inch. There is a little. There is some cotton produced there that is an inch, but out of the India crop this year, of five and a quarter million bales, I suppose the total amount of five-eighths inch and above will not be over three or four hundred thousand bales.

Mr. JACOWAY. Mr. Marsh, is not this true, that in order to get the highest finished product with India cotton you have to mix it with American cotton every time?

Mr. MARSH. With India cotton?

Mr. JACOWAY. To get the highest finished product.

Mr. MARSH. I think it depends on what the product is. Mr. Parker can answer that a good deal better than I can.

Mr. PARKER. I will say I never heard of mixing American cotton with India cotton. They are wholly different characters of cotton.

Mr. MARSH. The spinners in Germany I think do mix it.

Mr. PARKER. They would mix very short-staple American. In other words, they would get hold of five-eighths American cotton, and they can mix it with Indian cotton. They use a woollen process to do that.

Mr. JACOWAY. The American process has come into it somewhere; that is what I am getting at.

Mr. PARKER. I do not know of any at all.

Mr. HEFLIN. That has been my impression, that they do get a great deal of short-length American cotton to mix in with it in Great Britain.

Mr. MARSH. Mr. Heflin, I think that is not true of Great Britain. The countries in which the short-staple American cotton is used are primarily Germany and Italy. Those are the great European markets for India cotton. Spain uses a little, but Italy and Germany are the great markets for India cotton. The amount used in Great Britain is trivial in comparison with the total consumption of cotton in Great Britain.

But the point I want to make here is it seems to me it is vitally important that the superior character of the American cotton crop should be maintained and should be recognized the world over. That superiority gives this country a price for its cotton which is somewhat out of proportion to the difference in what you may call mere manufacturing worth. The demand for American cotton, because of this character—the feeling that it is indispensable because of this character—is worth millions and millions by itself to this country every year.

The CHAIRMAN. Just one question: What is the relative price of India cotton as compared with the American cotton?

Mr. MARSH. Ordinary India cotton sells very much cheaper than American cotton. This year it has been—well, I think at one time 4 cents a pound; over 4 cents a pound lower than American cotton in Liverpool.

The CHAIRMAN. There could not be any very great competition between the two classes of cottons.

Mr. MARSH. Not between the two classes of cottons unless our cotton runs down in character. As long as we produce the kind of cotton we are producing we can not have real competition between American cotton and India cotton.

The CHAIRMAN. And certainly there should not be any objection to legislation which had a tendency to uplift our cotton.

Mr. MARSH. That is our feeling.

Mr. MAGUIRE. Would you find all lengths of cotton in one boll or one pod?

Mr. MARSH. Oh, no, sir.

Mr. MAGUIRE. I do not mean "all," but various lengths.

Mr. MARSH. A certain boll contains fibers virtually of the same length. The bolls on a plant, provided they all open at the same time, contain fibers virtually of the same length.

Mr. MAGUIRE. Do you find in one field the wide variety of half an inch to an inch?

Mr. MARSH. No, sir; you do not. Of course there are some careless farmers who do not take care of the character of seed which they save to plant or buy to plant, and they get an irregular cotton.

Mr. MAGUIRE. What would you call that in the trade—that length of cotton?

Mr. MARSH. We do not call it anything. We just lose our tempers when we get landed with it; that is all. I mean a certain amount of it turns up. But this must be said: That the southern cotton producer, taken as a class, realizes the importance of a reasonably pure seed, and even the negro tenants have got that into their heads. They have got it into their heads that if they plant a mixture of seed and their cotton is of two sets of length they are going to get a lower price for it.

Mr. PARKER. Mr. Marsh, are you justified in saying to the committee, based on your experience, that the demonstration work being done to-day by the Government is having a great influence in that respect?

Mr. MARSH. Oh, yes, sir; I am glad to say that. I think it has had a very great effect, and we may look for continued improvement in that direction.

The CHAIRMAN. Mr. Marsh, you said a moment ago you would penalize cotton below seven-eighths inch in length. Just what character of cotton would you penalize, to what extent, and how? What would be the plan you would work out there?

Mr. MARSH. I should penalize cotton between three-fourths inch and seven-eighths inch by approximately a quarter of a cent a pound; I should penalize cotton between five-eighths inch and three-fourths inch by approximately three-quarters of a cent a pound.

The CHAIRMAN. You would write that kind of a proposition into the bill, or would you fix a minimum limit and work that way?

Mr. MARSH. I am very doubtful about that, Mr. Chairman. I am really sailing uncharted waters here to a large extent. This change over from the trade regulating itself to having the trade regulated by legislation, by statute, deprives me of a good many of my bearings.

On the point of the length of staple there is a passage in a letter here which I would like to read. It is from Macon, Ga.—from Hurd Bros., cotton factors, of Macon, Ga. They say:

Relative to the proportion of the cotton produced in this section below seven-eighths inch in staple, in the normal season we should say from 35 to 40 per cent; in a drought season, 75 to 80 per cent.

Now, on this same point the late George Neville was very greatly interested in this question of the length of staple, and he made a study of the record of his purchases of cotton in the South Atlantic States and came to the general conclusion that in the Piedmont section, in the Carolinas, Georgia, and Alabama, there was very little danger of having cotton of less than seven-eighths inch in staple; that the production of cotton less than seven-eighths inch in staple in the Piedmont section was negligible.

Mr. YOUNG. Have you any figures from Texas on that?

Mr. MARSH. Yes; I have the figures on Texas.

Mr. YOUNG. How are those?

The CHAIRMAN. I would like to let him finish this point first.

Mr. MARSH. Now, Mr. Nevill, having arrived at this conclusion, also found from his experience—

Mr. HAWLEY. Mr. Marsh, would you state that conclusion again?

Mr. MARSH. Mr. Nevill's conclusion, from his own experience, was that there is virtually no cotton produced in the Piedmont section, in the Carolinas, Georgia, and Alabama—less than seven-eighths inch in staple in any season—either a normal season or a drought season.

Mr. PARKER. If you will pardon me, in that connection the report from your own representatives in Ninety Six, which is right in the Piedmont section, shows a wide variation.

Mr. MARSH. I give it for what it is worth. We are dealing here with uncertainties, and Mr. Nevill found that in his purchases of cotton the lower sections of the States in a drought year produced very large quantities of cotton under seven-eighths inch and some cotton under three-fourths inch—only a little as low as five-eighths inch, but a large amount under seven-eighths inch.

Accordingly, Mr. Nevill wrote to the Geological Survey and asked for a map, or an outline of a map, showing the line of the Piedmont section, beginning with North Carolina and extending around through Alabama. This is the map which was sent him by the Geological Survey [producing map] and there is a red line here showing the division between the Piedmont and the lower part of the States.

Then Mr. Nevill took the cotton-producing counties in the four States of North and South Carolina, Georgia, and Alabama and obtained from the Census Bureau figures of the cotton production of the counties in the Piedmont and of the counties in the lower section of the States. He did this for two years—the crop of 1911-12 and the crop of 1912-13—and he found that in North Carolina the percentage of the crop produced in the Piedmont section was 24.3 per cent. Therefore, the amount produced in lower North Carolina was 75.7.

In South Carolina he found the amount produced in the Piedmont section was 43.8 per cent and the amount produced in the lower country was 56.2 per cent.

In Georgia, in the Piedmont section, they produced 48.4 per cent.

Now, in Alabama the Piedmont section produced 40.8 per cent.

That was for the crop in 1912. The proportion does not vary much for the crop of 1912-13.

Now, the total production in the Piedmont section for all these States in 1911-12 was 3,061,000 bales. The production in the lower part of the States was 7,308,000 bales, and it was Mr. Nevill's belief

that in a drought year you had to expect a pretty large percentage of that 7,308,000 bales under seven-eighths inch in length of staple.

In 1912-13 the cotton produced in the Piedmont section was 2,200,000 bales and in the lower section 5,271,000 bales.

Mr. PARKER. Take Alabama there, for instance. You would show the black lands of Alabama and the canebrake lands of Alabama to be within the lower section, would you not?

Mr. MARSH. This is very rough, Mr. Parker.

Mr. PARKER. I am just stating facts, and that is so, because that section produced the best cotton grown in the eastern belts—the black hills of Alabama and the canebrakes—and yet they are not in the Piedmont section.

Mr. MARSH. You are very correct about that, Mr. Parker; and there are other sections. For instance, the section around Rome, Ga., probably never produces any cotton under seven-eighths inch staple. But this is simply a rough approximation in a field which has not been systematically studied in a statistical way.

Mr. Chairman, if the committee desires to have this left, I shall be glad to leave it.

The CHAIRMAN. I think it would be all right for Mr. Marsh to put in the statistics, but I doubt if we have authority to print the map. If we can have that map printed for you, Mr. Marsh, we will do so. At any rate, we will include your written statement.

*Cotton production of Piedmont section.*

State.	Crop, 1912-13.		Per cent.
	Bales.	Bales.	
Alabama.....	531,021	1,328,297	40
Georgia.....	891,392	1,812,778	48.2
South Carolina.....	535,681	1,224,245	43.8
North Carolina.....	242,174	906,351	26.7
Total.....	2,200,278	5,271,671	.....

State.	Crop, 1911-12.		Per cent.
	Bales.	Bales.	
Alabama.....	692,394	1,695,284	40.8
Georgia.....	1,353,578	2,794,295	48.4
South Carolina.....	741,579	1,692,146	43.8
North Carolina.....	273,483	1,126,276	24.3
Total.....	3,061,034	7,308,001	.....

DEPARTMENT OF THE INTERIOR,  
UNITED STATES GEOLOGICAL SURVEY,  
Washington, December 27, 1913.

Mr. GEO. W. NEVILLE,  
82 Beaver Street, New York City.

DEAR MR. NEVILLE: In response to your letter of December 9, inclosing map showing North Carolina, South Carolina, Georgia, and Alabama, the map is returned herewith with the southern and eastern boundaries of the Piedmont section outlined, as per your request.

Yours, very truly,

H. C. RIZER, *Chief Clerk.*

Mr. MARSH. I should like to ask Mr. Millett, if the chairman will permit me, to give his general impression as to the amount of cot-

ton under seven-eighths inch in length produced in the Atlantic States. Mr. Millett is the chairman of the classification committee of the New York Cotton Exchange and has had a very extensive experience with cotton, not only in New York, but in the South.

**STATEMENT OF MR. FRANK B. MILLETT, CHAIRMAN OF THE CLASSIFICATION COMMITTEE OF THE NEW YORK COTTON EXCHANGE, NEW YORK, N. Y.**

Mr. MARSH. Mr. Millett, what is your general impression as to the amount of cotton less than seven-eighths of an inch staple produced in the Atlantic States, in a normal year; and what is your general impression as to what is produced in a drought or sun-made crop year?

Mr. MILLETT. In a sun-made crop year, my experience goes to show that it is decidedly under seven-eighths inch, that the average is under seven-eighths inch; and in the other years it is certainly not over. I will quote one year, if you will allow me.

In 1906, when we had what we call a sun-made crop, we had a very large amount of cotton that came into New York which was below five-eighths inch staple, and in our committee we were very much at a loss to know what to do about it. It was brought in mostly from Norfolk, and, while we had no authority under our own rules to condemn it at that time, we were very much in doubt as to whether it came under the head of merchantable cotton; and when we got cotton which run down to a half an inch, then we commenced to throw it out. And there were 700 bales in one lot, brought in by one house, that no one of our members could pull to five-eighths of an inch and a great deal ran down to half an inch, and so on.

The CHAIRMAN. What was the total amount of the lot?

Mr. MILLETT. That was 700 bales. That house took that cotton back.

Mr. HAWLEY. Your experience is based upon cotton coming into New York?

Mr. MILLETT. In that instance; but I have been in that part of the country and have served 15 years in the Memphis market and two years in Texas.

Mr. HAWLEY. And you mean your statement to cover all of your experience?

Mr. MILLETT. Yes. My experience in Memphis covers a long experience. As to the Atlantic States, part of the year I was in Augusta, Ga., part of the year in Macon, Ga., and part of the year in Atlanta, Ga.

Mr. HUMPHREYS of Mississippi. Do you think the majority of the cotton coming in the market is under seven-eighths?

Mr. MILLETT. I think the majority of the cotton coming to my notice is under that.

Mr. HUMPHREYS of Mississippi. In the Memphis market?

Mr. MILLETT. Oh, no; not in the Memphis market. That is another story altogether.

Mr. HAWLEY. Your statement applies only to the Atlantic States?

Mr. MILLETT. Only to the Atlantic States. In the Memphis market we have cotton coming up from north Alabama that was nothing under an inch.

## STATEMENT OF MR. ARTHUR R. MARSH—Continued.

Mr. MARSH. In regard to this matter, then, of the length of staple, the committee is necessarily dealing with something about which there is not any satisfactory information; and the impression which we have is that if the limitation of delivery is made seven-eighths inch there will be drought years or sun-made crop years in which not merely thousands or tens of thousands or hundreds of thousands of bales but millions of bales from the Atlantic States will be excluded from delivery on the cotton-exchange contracts.

The CHAIRMAN. Suppose the committee should accept your judgment as to the length of staple, and made it five-eighths, what per cent do you think would be excluded then?

Mr. MARSH. Except in so unusual a year as 1907—I think Mr. Millett meant the crop of the year 1907, didn't you, instead of 1906?

Mr. MILLETT. 1907.

Mr. MARSH. He meant the crop of 1907 instead of 1906. In any except a very unusual year, such as 1907, I should say that a very trifling amount of cotton below five-eighths inch would be found.

The CHAIRMAN. Would very much be excluded if the committee should fix the length at thirteen-sixteenths, or something like that?

Mr. MARSH. Well, there, again, I feel a good deal of doubt. I should say, roughly speaking—let us see—thirteen-sixteenths—yes; a good deal would be excluded, particularly in a drought year.

Mr. PARKER. Mr. Marsh, I am impressed with your suggestion as to penalizing, because I think it may have the effect, in working out the plan you have in mind, of improving the character of the cotton. Your commercial difference, I think, possibly is slightly low. In other words, I think there is slightly more than a quarter's difference in value between seven-eighths inch and three-fourths inch. But if you work it out in a statute that way, by providing for a length of seven-eighths with a penalty of one-fourth to three-fourths cents, as suggested by you, do you think that would meet the suggestion, now?

Mr. MARSH. That is what I have advocated in New York.

Mr. PARKER. I mean if you put that in legislation do you think that would meet it also?

Mr. MARSH. Yes; I should say if you make all this a matter of statute, that would be the way to do it. Of course, there is one point, Mr. Chairman—

Mr. LEE. Mr. Marsh, would not that difference, say, vary from year to year, and some years a low grade might be lower in proportion than a high grade of another year—a difference of a quarter of a cent there and three-quarters of a cent?

Mr. MARSH. There is probably force in that, Mr. Lee. The very great practical difficulties in the way of writing a statutory provision of an adjustable kind—

Mr. LEE. My experience has been that some years a low grade cotton is worth a little more in proportion than it would be worth in other or low-grade years.

Mr. HAUGEN. It would vary with the price of cotton also, would it not?

Mr. MARSH. Unquestionably.

The CHAIRMAN. Couldn't it be worked out this way, to provide that this penalty should be fixed upon the actual commercial difference, and provide for the grades to be fixed as we fixed them over here in the Department of Agriculture in some way?

Mr. MARSH. Yes, sir.

The CHAIRMAN. They would have a broad authority and make it flexible enough so that it would not be iron bound.

Mr. MARSH. The next matter is the matter of grades.

Mr. HEFLIN. Mr. Marsh, I have been striving to regulate exchanges and concerns dealing in cotton, so that they would be helpful and in no way hurtful to the producer of cotton. What objection would you have to a provision in the bill that would require a record to be kept of all transactions had on the exchanges, setting out the name of the person selling the cotton, the name of the person to whom sold, and the grade of the cotton agreed to be delivered, with a provision that actual cotton shall be delivered on contract.

Mr. MARSH. Of course the objection to the last of those provisions is that—

Mr. HEFLIN (continuing). Together with the price agreed upon.

Mr. MARSH. The objection to the last of those provisions, supposing it to be intended that cotton must be shipped to New York to be delivered on every single contract made, I am supposing that you do not mean that 100 bales of cotton can be delivered by me to Mr. Humphreys and by Mr. Humphreys to Mr. Lee, and by Mr. Lee to you, and by you to Mr. Hawley, and by Mr. Hawley to Mr. Lever, and so on, in settlement of a series of contracts among us. As I understand you, you mean that if I have a contract with Mr. Humphreys and Mr. Humphreys has a contract with you, and you have a contract with Mr. Lee, and Mr. Lee has a contract with Mr. Hawley, I must bring 100 bales of cotton to New York to deliver to Mr. Humphreys; Mr. Humphreys must bring 100 bales of cotton to New York to deliver to you; you must bring 100 bales of cotton to New York to deliver to Mr. Lee; Mr. Lee must bring 100 bales of cotton to New York to deliver to Mr. Hawley.

That is what you mean, is it not, Mr. Heffin?

Mr. HEFLIN. No. I mean that actual cotton shall be delivered, and that you won't use the same cotton to sell an endless chain of contracts, a stock cotton—a cotton to have and to hold purely for that purpose. I mean like you were dealing in real estate: You might sell a lot here to a gentleman, and you have to transfer the title to it. Then if he sells it, he has got to transfer the title, and on it goes. There is only one lot to be speculated on. Yet you must not have 1,000 bales of cotton in New York and inside of the month of May you have transactions of several hundred thousand bales, but never calling on the producer for a lot of cotton to fulfill the contract.

What I want to get at is some regulation of the exchange, so that when sales are made on the exchange you have to call on the producer of cotton for cotton to fill those contracts.

Mr. MARSH. Mr. Heffin, the producer is called upon for cotton now to fill those contracts, except—

Mr. HEFLIN. A moment ago you said you would require each fellow to move his 100 bales to New York. You were proceeding upon



the theory you only had 100 bales there. You sold to me, I sold to Mr. Humphreys, he sold to Mr. Lee, and he sold to somebody else, and on around it would go with only 100 bales passing hands.

Mr. MARSH. Mr. Heflin, what I was trying to say—to try to find out whether I understood your position correctly, I did not understand whether you mean by having cotton delivered on every contract made in New York, that every person selling a contract in New York must bring the physical cotton to New York and deliver it there. I do not now understand, and I should like to ask you if that is what you mean?

Mr. HEFLIN. What I mean is to regulate the exchange so that only contracts would be handled on the exchange by persons who are really interested in cotton for the purpose of buying it and holding it for a better price, or a person who produces it, or to the spinner who consumes it, and not by these people who speculate purely on the exchange, never having any use for cotton, except to fill the contract and settle the money difference of the grades fixed by your committee, or fixed difference, whatever you call that committee. I do not think they help the producer; I think they are hurtful to him, and if we can regulate the exchange so that men who want cotton for the purpose of holding it, for speculative purposes; that is, if a man buys cotton at 10 cents, and he says I believe it is going to 13 cents, and he holds the cotton—then he takes it from the farmer. Then the spinner will buy from him.

Now, why should you have an exchange speculate in hundreds of thousands and millions of bales of cotton and never call on the producer through the selling season for cotton to fill the contracts?

Mr. MARSH. Mr. Heflin, we do call on the producer. All the contracts sold in the New York market, except the 10 or 15 per cent of purely speculative contracts, are contracts sold by somebody who has first bought some cotton from the cotton producer. Every one of them are sold by a person who has first bought some cotton from a cotton producer.

Mr. HAWLEY. Mr. Heflin's suggestion entirely omits the hedging feature of your business, does it not?

Mr. MARSH. Of course, Mr. Heflin is omitting the hedging business. I am a little at sea, to tell the truth. I do not think Mr. Heflin's mind and my own are quite meeting as to the terms we are talking about.

Mr. HEFLIN. I think that is perfectly clear. I am representing the producers' side of it and you are representing the exchange side of it. I think, as conducted to-day, the New York Exchange is useless to the needs of the producer in the cotton business. I am honest in thinking that. You think it is helpful to him. I believe you are honest in thinking that. But we have not agreed so far.

Mr. HUMPHREYS of Mississippi. Mr. Marsh didn't get your question. He wanted to know whether you wanted 500 bales shipped to New York or did you want this transaction up there—do you want the whole of this transaction you detail carried on with 100 bales?

Mr. HEFLIN. For instance, what I mean—to illustrate: Suppose there is a man in South Carolina, Mr. Parker, who wants a thousand bales of cotton. He will buy it on the exchange of somebody, from Mr. McFadden. Now, then, he does not have to take it up there; he

can deliver it to him in his place at South Carolina for him to manufacture. The Linnett Cotton Mills in my town want 5,000 bales of cotton, and they place the contract on the exchange. I want your exchange so that it will help deliver the cotton, so that it will deliver that 5,000 bales of cotton to the Linnett Cotton Mills in my district.

Mr. MARSH. Mr. Heflin, if you will allow me to interrupt you, precisely the situation which you have described as regards the cotton in your section is the actual situation with regard to 75 to 90 per cent of all the transactions of the New York Cotton Exchange. Mr. Webb, who lives in the same town with Mr. Parker, buys 5,000 bales of cotton to-day. Mr. Parker does not want that cotton to-day—

The CHAIRMAN (interposing). Buys it of the farmer?

Mr. MARSH. Buys it of the farmer. He buys it of the farmer to-day because the farmer is offering it to-day. The farmer wants to sell it to-day. He does not want to sell it when Mr. Parker needs it. He wants to sell to-day and get his money. Mr. Parker does not want to buy it until he needs it—until he requires it in his mill.

Now, what function does Mr. Webb play in the matter? Mr. Webb buys the cotton of the farmer to-day when the farmer wants to sell it, and Mr. Webb then immediately sells 5,000 bales of futures in New York as a hedge against that cotton, and he waits until next week or next month, until Mr. Parker has used up the stock of cotton in his mill and wants some, and then he makes a trade with Mr. Parker for the cotton and he buys in his contracts in New York.

In may even happen that in that interim Mr. Parker has been in New York and had an opportunity in New York to make a quick trade for a big lot of stuff to go to China, and he has not had time to look around to see where he can get his cotton. He does not know whether Mr. Webb has enough for him of the right kind or not, and he has got to make his price on that stuff for China then and there, and he makes it then and there on the basis of future contracts, and he buys 5,000 bales of future contracts in New York. Then we have the situation of Mr. Webb, who has bought 5,000 bales of cotton from the farmer and sold 5,000 bales of futures in New York, and Mr. Parker, who has sold 5,000 bales, not of the cotton that goes to China but 5,000 bales of futures, in New York. Next week Mr. Webb and Mr. Parker get together and they make a trade for that cotton, and in effect Mr. Parker sells out his futures and Mr. Webb buys them.

The CHAIRMAN. And they close the transaction?

Mr. MARSH. And they close the transaction, and the farmer gets his money and Mr. Parker gets his cotton.

Mr. HEFLIN. Now, then, what objection would you have to write in this bill, when that sort of a transaction will be had on the exchange, that Mr. Webb buys from the farmer 5,000 bales of actual cotton and sells 5,000 bales of hedge? Mr. Parker does not want the cotton, and he buys 5,000 bales to protect his cloth contract.

Now, what objection would you have to confining the contract business of the exchange to those persons who actually deal in the spot cotton in that way, where there is spot cotton in existence bought from the farmer and held by some man to await the pleasure of the spinner?

Mr. MARSH. The very obvious difficulty is, Mr. Heflin, that by your terms in this case, Mr. Parker buying his futures and Mr. Webb sell-

ing his futures, they are not going exactly to coincide in the market. There is not one chance in ten thousand that Mr. Webb's order to sell 5,000 bales of futures will come into that market at the very second that Mr. Parker's order to buy 5,000 bales of futures gets there. Now, suppose you have only this kind of a transaction going on in the exchange: Mr. Webb's order to sell 5,000 bales of futures comes into the New York market and those futures have to be sold down until they strike orders from the spinners who have put them in away below the market, and Mr. Webb gets for his futures prices that may be half a cent a pound below the parity of his cotton. A little later Mr. Parker comes along and he wants to buy 5,000 bales of futures. Mr. Webb's 5,000 are gone, slaughtered. Mr. Parker wants to buy 5,000 bales, and he has got to put the market up until he reaches some order from a fellow who is holding some cotton down in the South somewhere who is willing to sell it at a price away up here [illustrating].

In other words, the result of the kind of business you advocate would be that the very time a spinner wanted to buy any futures the market would run up on him, and every time a spot man wanted to sell any futures the market would drop on him, and you would have waste and loss all the time.

Now, that is the explanation of the function of the men who are accustomed to take these contracts backward and forward at slight concessions in price one way and the other. When we realize that these people look upon \$50 on \$6,000 as a very big profit—the great mass of these people that you wish to eliminate from the market look upon a profit to themselves, for taking that intermediary risk, of 10 points, or \$50, on property worth \$6,000 and \$7,000 as big—we are getting this service out of them, this risk-carrying from them, for this picayune profit. As a matter of fact, they do not get \$50 on \$6,000 once out of a hundred times. Most of them are mighty glad to get \$5 on \$6,000. They buy at the bid price and sell at the offered price all day long. Now, that is the kind of people you want to eliminate from the market, and their operations are the operations which you declare to be gambling operations.

Now, I can not understand it.

Mr. HEFLIN. I was talking to a cotton buyer about that, and he said he thought the people who really dealt in cotton ought to have some place where they could hedge. I said, "Why should they have some place where they could hedge?" He said, "Because of speculation." I said, "If you do away with fictitious speculation—that is, speculation with thousands of contracts where no real big bulk of cotton is delivered—what would you say then?" He said, "If you do away with that, you do away with the necessity to hedge." Then I said, "It will come down to the proposition of the producer and the spinner. The fellow who wanted to invest money in cotton bales, to hold cotton for an advance in the price—just like the stock business, the man in Missouri that raised mules, he sells to a man in Kansas City, who sells to the stockman in my town, who sells to the farmer. The man who grows the mule over here—raises the mule—does not have to take it to the farmer in my State, but the stockman there collects the mules—thousands of them—and he sells a big bunch of them to the stockman in my town, who sells to the farmer.

Now, why could not we, if we do away with this speculation, have a spot-cotton exchange, have warehouses all over the South where men would have inducements there to hold cotton, to actually back their judgment on cotton and buy 10 bales or 15 bales and store those bales and to hold them in the market for a better price?

Mr. MARSH. Mr. Heflin, of course you have described exactly the situation there is in the wool business to-day. Over in Boston the wool business is carried on exactly as you describe there. Wool is gathered in Boston and it is stored—

Mr. HEFLIN. I am speaking of mules.

Mr. MARSH. I took the liberty—

Mr. HEFLIN. That is all right; I thought you misunderstood me.

Mr. MARSH. I took the liberty of going from the mules to wool—from the mule to the sheep, a milder animal.

Mr. HEFLIN. I thought the mule was more in keeping with some performances on the exchange. He can kick pretty high sometimes. [Laughter.]

Mr. MARSH. It is perfectly possible, Mr. Heflin, to have a distribution of the cotton crop conducted in the way in which you suggest, on one condition, and that is that you are willing to pay the price.

The CHAIRMAN. Mr. Heflin's proposition, Mr. Marsh, as I gather it, would mean the absolute prohibition of future trading in cotton.

Mr. MARSH. That is my understanding.

Mr. HEFLIN. No, sir; that is not my understanding; that is not my intention. I want the exchange to be a place where the spinner, Mr. Parker, can go to buy and say, "I am going to want 5,000 bales of cotton the 1st of September, I want 5,000 more the 1st of October, within certain grades, and that much more in November." I want it to be a place where the man can deliver the actual cotton.

The CHAIRMAN. Make the contract right then.

Mr. HEFLIN. Make the contract in advance. We do do it. We have the farmers in the South now that will sell the cotton crop before they plant the seed.

Mr. MARSH. Let them sell.

Mr. PARKER. Their crop is guaranteed to be strict middling cotton.

Mr. HEFLIN. They won't sell to him now because they have not the exchange conducted in that way. That would interfere with that transaction. But I am not opposed, Mr. Chairman, to the transaction of buying and selling for future delivery. I think that is right and proper. Let them make the contract before the seed is planted, if they need it, for cotton to be delivered in the fall—when nobody needs it, but wants to hold it to sell to the spinner. But I want to do away with these wildcat contracts they have on the exchange, where no cotton is ever delivered. And it has been admitted here by a witness that they have a certain per cent of contracts of that character on the exchange.

Mr. HAWLEY. Mr. Chairman, I would like to have Mr. Marsh make the comment he was going to make on the wool situation.

Mr. MARSH. The comment I was going to make, Mr. Hawley, is this: It is a perfectly well-known economic fact that every economist who has studied the matter is familiar with, that the effect of the extensive dealings in contracts for future delivery used for hedging purposes is to narrow up the differences between the buying price and the selling price of the commodity.

In the wool business the difference which wool dealers who can not hedge calculate between the price they will give to the growers of wool in Wyoming and the price they expect to get from the woollen manufacturer is never less than 10 per cent for what may be called the bread and butter wools and runs as high as 30 per cent for wools which are specialties. More than that, in the wool business the amount of capital invested in proportion to the turnover is at least five times what it is in the cotton business. A wool firm in Boston does not dare to have less capital than 50 per cent of its turnover. There is not a cotton firm in the United States that has capital of its own invested in the cotton business of 20 per cent of its turnover, and the average amount of capital invested in the distribution of cotton is less, much less, than 10 per cent of the value of the cotton crop.

Mr. HAWLEY. Now, Mr. Marsh, on this margin of difference between the buying price and the selling price, isn't it the interest on the extra amount of money invested? Where is the "incidence" of that? Has it drifted back to the grower or is it absorbed by the dealer or consumer?

Mr. MARSH. You have asked one of the hardest questions to answer in all economics, because sometimes it is shifted one way and sometimes it is shifted the other. In years of shortage it is shifted to the consumer; in years of plethora of supply it is shifted to the producer. All that you can say, Mr. Hawley, is that if you have to calculate 10 per cent or 15 per cent between the price which you pay for your commodity and the price you expect to get for it, the wool and the cotton man is calculating only one-half of 1 per cent, which is happening to-day. The cotton man to-day is figuring on only one-half to two-thirds of 1 per cent on the value of the cotton he is handling, and the wool man in Boston is figuring on from 15 to 30 per cent of the value of the wood he is handling. And I say if you contrast that situation in the cotton trade with that of the wool trade, you can not but arrive at the conclusion that there is an enormous economic wastage in the manner in which the wool trade is conducted.

Mr. HAUGEN. I would like to ask, Mr. Marsh, how do you harmonize that statement made here yesterday, where the expense is \$13.90 a single bale—the cost of the insurance, the hedging?

Mr. MARSH. Mr. Haugen, when I listened to the statement yesterday, to the effect that a single spinner paid, as I figured it, approximately \$1,100,000 insurance premium in one year—

Mr. HAUGEN. Take a single bale.

Mr. HUMPHREYS of Mississippi. Just let him finish that answer; I was interested in it.

Mr. MARSH. As I understood the testimony yesterday, a single spinner was reported to have paid, as an insurance premium, approximately \$1,100,000 in one year. I regretted, when I heard that, that fortune had been so unkind to me as to get me into the cotton trade instead of into the manufacturing business, because certainly if a manufacturer in one year can spend \$1,100,000 as an insurance premium it must be one of the most lucrative businesses ever designed or devised by man.

Mr. LEE. Don't you think you made a mistake in not going into the insurance business? [Laughter.]

Mr. HAUGEN. Yes; the insurance business must be a very profitable business. The statement was they paid 25 per cent premium. I believe Mr. Parker made the statement, there had been a falling in price of \$2.50 and 15 cents commission, which makes \$13.90 a bale. Now, then, it cost Mr. Parker \$13.90 for every bale of cotton he handled, and still you say they carry on the business at a profit of one-half of 1 per cent.

Mr. MARSH. Mr. Parker is a manufacturer, and we are nothing but cotton merchants.

Mr. HAUGEN. Oh, no; but that is what he paid for the insurance. He hedged, and that is termed here insurance; and that is what he paid for hedging on contracts, and the cost is \$13.90.

Mr. MARSH. Per bale.

Mr. HAUGEN. Yes. Now, then, the cost for handling the wool, 10 per cent, on the same transaction, a bale of cotton being worth \$75, 10 per cent of \$75 would be \$7.50. That is the expense of handling the wool. The expense of handling the cotton is \$13.90, and still you say it is only one-tenth the cost of handling the wool. I do not see how you can harmonize the two statements. Either one man is entirely off or the other one is; I do not know which. But there is a vast difference.

Mr. MARSH. Mr. Haugen, of course I am speaking of the cotton merchant. The cotton merchant certainly does not make any profit which enables him to pay a premium of that size.

Mr. HAUGEN. I would not think there would be much profit left after paying the exchange \$13.90 on every bale.

Mr. MARSH. The exchange does not get a cent of it.

Mr. HAUGEN. It is a transaction of the speculator, and as an incident a commission of 15 per cent to the commission man, whoever he was. That was the statement, according to Mr. Parker's testimony.

Mr. PARKER. That was not my testimony. I did not give that statement; you are wrong about that.

Mr. MARSH. Mr. Callaway gave it.

Mr. HAUGEN. You remember that statement?

Mr. PARKER. I recollect it.

Mr. HAUGEN. And it is practically correct, is it not?

Mr. PARKER. Under certain conditions, yes. Take an absolute operation, Mr. Marsh. I will give an absolute operation: I bought 10,000 bales of cotton on the New York Cotton Exchange in December at 12.90. Cotton subsequently declined on the exchange to 11.50, therefore I would have a loss of a cent and a half.

Mr. MARSH. You mean basis contract.

Mr. PARKER. A basis contract on the exchange in May cotton, in other words. My cotton declined 1.40 on that basis, and the spot cotton did not decline a cent.

Mr. MARSH. What do you mean by spot cotton?

Mr. PARKER. Cotton to spin.

Mr. MARSH. Middling cotton or strict middling cotton?

Mr. PARKER. The character of cotton that can be spun.

Mr. MARSH. The character of cotton you can spin or that can be spun?

Mr. PARKER. I mean to say, naturally, the character of cotton I would buy against that hedge. That is a fact, Mr. Marsh. Those are facts; there can be no dispute of those facts.

Mr. R. C. CAIRNS. Mr. Chairman, may I ask Mr. Parker a question?

The CHAIRMAN. Yes.

Mr. CAIRNS. Mr. Parker, might I ask you whether you were not aware of the fact when you entered into that contract in New York that the quality of cotton you required was strict middling of a certain staple?

Mr. PARKER. Mr. Cairns, I expect I use the greatest variety of cotton of any cotton manufacturer in the United States, and I am buying cotton now from ordinary up to good middling.

Mr. CAIRNS. You are? Might I ask you this question: If at the time you wanted to convert your contracts in New York into ordinary cotton, would it have been a loss to you of 1.40 if you had bought ordinary instead of strict middling?

Mr. PARKER. It would not be as much. I expect next Tuesday to take up that cotton I bought and ship it back to South Carolina that I can not buy as cheap there as I can buy it in the South.

Mr. HAWLEY. I would like to ask, Mr. Parker, if the instance you gave is intended to be a typical instance or an exceptional instance?

Mr. PARKER. It is an exceptional instance. They vary very greatly. As a rule, I would say the hedge loss is nothing like as much as this—not the same loss every year.

Mr. HAWLEY. How much would you estimate the insurance to be, taking a hedge as insurance?

The CHAIRMAN. As an average.

Mr. PARKER. As an average it is only about one year in five that there is really any loss, you can say, of considerable moment in a hedge. You may say this, Mr. Chairman: The same amount of loss would occur this year.

Mr. HAWLEY. So, practically, the insurance costs nothing; is that what I understand?

Mr. PARKER. Oh, it costs something, but not the same loss as this year.

Mr. HAWLEY. How much would it cost?

Mr. PARKER. Oh, I would not say, ordinarily, over 25 cents a bale.

Mr. HAUGEN. And it all depends on the manipulation, of course, in New York. They can make it \$2.50 or 25 cents?

Mr. PARKER. That is the fact.

Mr. HAUGEN. But the fact remains, it is always a loss?

Mr. PARKER. The fact remains, you are always subject to a loss. I will put it in that form.

Mr. HAUGEN. You said this was exceptional. Do you consider the deal with Mr. Callaway was an exceptional case, where his loss was \$1 a hundred more than yours?

Mr. PARKER. No; he simply had a greater misfortune than I had. I will put it in that form.

(Thereupon, at 5.05 o'clock p. m., a recess was taken until to-morrow, Saturday April 25, 1914, at 10.30 o'clock a. m.)

COMMITTEE ON AGRICULTURE,  
HOUSE OF REPRESENTATIVES,  
*Washington, D. C., Saturday, April 25, 1914.*

The committee met at 10.30 o'clock a. m., pursuant to the taking of recess.

**STATEMENT OF MR. ARTHUR R. MARSH—Continued.**

The CHAIRMAN. At recess yesterday evening Mr. Marsh was discussing paragraph 5 of section 5, and he had concluded, as I take it, the proposition as to the length of staple.

Mr. MARSH. Yes, sir.

The CHAIRMAN. I presume Mr. Marsh would like to discuss the limit of grading fixed in section 5. I would be glad if he would do that, and if possible, Mr. Marsh, the committee would like very much, without hurrying you too much, to have you finish by 12.30.

Mr. MARSH. I shall do my best, Mr. Chairman.

There are two matters which I would like to discuss at a little length, and another one about which I should like to speak very briefly. The two more important matters are, first, the matter of grade, and second, the matter of determination of differences, and the third is the pro forma bill. That I shall speak of only very briefly.

The CHAIRMAN. And before you conclude your testimony, Mr. Marsh, I would want you to discuss the constitutionality of these bills. I take it you have referred to your lawyer or attorney the question of the constitutionality of the Senate bill and the House bill.

Mr. MARSH. That has not been referred to counsel for the exchange. I have some ideas of my own on the subject, but I suppose the committee is hardly interested in the opinion of a layman.

Yesterday I was discussing, as the Chairman said, the matter of limitation of staple. The first thing to-day is the question of the limitation of grade. Two propositions with regard to the limitation of grade are, as I understand it, really before this committee, although the Lever bill, of course, contains only one of those propositions. In the Lever bill it is proposed that the grades deliverable on contracts should be within the standard grades as established by the Department of Agriculture. That would mean that cotton as low as good ordinary Government standard should be deliverable.

The other proposition, which is not embodied in this bill, but which has been mentioned, is that the limitation of the grade should be low middling, that the lower boundary of the grade should be low middling.

In the same way in which we got information in regard to the length of staple we also got information with regard to the amounts or proportion of crops which would fall first below good ordinary and second, below low middling.

The CHAIRMAN. Before you do that are you not mixed as to the limitations fixed in the House bill? Do you not mean to say that the limitation fixed in the Senate bill went within the Government standard, and the limitation in the House bill is of no grade lower than low middling or lower than strict low middling tinged?

Mr. MARSH. You are right, of course, Mr. Chairman.



The questions that were sent out were based, first, on the Senate bill, and, second, on the House bill. The first question that we sent out was, Approximately what percentage of the crop in your section do you estimate to be lower in grade than the Government type of good ordinary white cotton, and lower than low middling tinged or middling stained? That is the provision of the Senate bill. The second question was, Approximately by what percentage of the crop in your section do you estimate to be lower in grade than the Government type of low middling, and lower than strict low middling tinged or middling stained? That is the proposition in the House bill.

Now, we have answers from the same persons on this point as with regard to the length of staple, and before taking them up I want to call the attention of the committee to the fact there is a fallacy not perhaps easily discernable in this whole matter of speaking of the average amount in a crop of certain grades or certain lengths of staple. The fact of the case is—and this is particularly true of the grade—that the average for the crop is meaningless. The essential question is, What is the proportion of low grades in those districts which have for a particular season been visited by storms? You may have a situation as you have this year in which the proportion of low grades in the Atlantic States is exceedingly small, but in which in Texas and in Oklahoma and in Arkansas they have a perfectly enormous proportion of low grades.

Now, if you take the average for the whole belt naturally that average is not particularly formidable, but the cotton producers in Texas and in Arkansas and in Oklahoma, who have that enormous proportion of low grades, are very little helped by having their high proportion of low grades averaged in with the very low proportion of low grades in the Atlantic States.

I want to call your attention to that as an essential matter to bear in mind all the way through in discussing this question. As I see the matter, at this point we reach the fundamental question as to who is going to suffer from a visitation of nature, such as storms that spread over Texas, Arkansas, Oklahoma, and western Tennessee this year, or such as spread over Mississippi, Louisiana, Alabama, and western Georgia in 1906. Who is going to pay the price for the losses of the cotton producers in those sections which are visited by a storm and whose cotton has, for the most part, or in a very large proportion, been reduced in grade? Are we going to lump those people who have suffered in this way in with the people who have not suffered, and are we going to say of them, "Why, the average of the amount of this low cotton in the whole crop is only 8 per cent or 10 per cent or what not, and consequently we do not need to regard them"? That is, as I understand it, the line of reasoning which is generally followed in this matter. But, gentlemen, it is a line of reasoning which is inherently unsound, and at this point I come to one of those matters which I had in mind when I said yesterday that any legislation to be permanent must be such legislation that the people of no section of the country can at any time rise in their wrath and say that the Congress of the United States has inflicted upon them a loss, not only the loss which nature has already inflicted upon them, but an additional loss due to man.

Sometimes as I listen to arguments on this subject it seems to me that there is only one way of characterizing those arguments, and that is the way which we have in the Holy Writ: "Unto those that have shall be given more abundantly, but from him that hath not shall be taken even that which he hath."

Mr. HAUGEN. The exclusion of the low grades in the operation of the cotton on the exchange does not interfere with the cash transactions, does it? They are sold outside of the board of trade.

Mr. MARSH. At an enormously depreciated price.

Mr. HAUGEN. Well, that has not been explained. The explanations so far is that it costs \$13.90 to go through this transaction. Now, to allege a thing is one thing and to prove it is another, and the proof is that it costs \$13.90 to go through this exchange. That is the statement of Mr. Callaway, and the statement of Mr. Parker is that it would be \$7.50, under the present situation.

Mr. MARSH. Mr. Haugen, is it not apparent on the face of the thing that there is not any manufacturing concern in this country that could possibly pay \$13.90 per bale as the cost of this insurance?

Mr. HAUGEN. That is their only hope and it is the only insurance available, and they simply have to take it or go without it, as these gentlemen have had to do, and there is no other source to go to.

Mr. MARSH. I will explain—

Mr. HAUGEN. Now, just a minute. We are getting facts. We are more interested in that than we are in scripture at the present time.

Mr. MARSH. I will explain exactly the situation with regard to the \$13.90.

Mr. HAUGEN. Well, that is an extraordinary situation. I understand that.

Mr. MARSH. Mr. Cone brought out in his questions yesterday the real truth with regard to that matter. It is true that if a spinner in the South, away back last fall, bought future contracts in New York and let them stand on his books until February or March of this year, expecting in February or March of this year to get middling cotton or strict middling cotton or good middling cotton, he would have lost \$13.90. I do not deny it, and it is a fact.

Mr. HAUGEN. Do you agree with Mr. Parker that that is due to the manipulation of these differences?

Mr. MARSH. Absolutely not at all.

Mr. HAUGEN. How do these contracts depreciate unless through the manipulation of the difference in prices?

Mr. MARSH. Because the contract represents the character of cotton which is available and does not represent a character of cotton which is not available.

Mr. HAUGEN. Why the fluctuation in prices of spot cotton on the board of trade as fixed by the board of trade?

Mr. MARSH. You have heard—

Mr. HAUGEN (interposing). This is a thing for the farmer, and I would like to know where the farmer comes in. I quite agree with you it is necessary to have this insurance, and it is a protection to the spinner, and we agree so far, but I would like to know where the farmer comes in. I think we are all agreed that whatever expenses are incurred—that is, between the producer and the consumer—must come out of somebody; and the cotton merchant, although an honest

man and a very excellent man, is not engaged in that business just for the purpose of remaining there, and whatever expense is incurred, it must come out of somebody, and it is coming out of either the producer or the consumer, and the purpose of Congress always is to help the consumer and the producer. They are the ones that they are particularly interested in, and they are going so far now as to eliminate these middlemen. Where are the farmers coming in on this deal? If the expense is \$13.90 in going through this process, who pays the bill? In this case it is not Mr. Jones who pays the freight, but it is either the farmer or the producer, and I would like to have that cleared up.

Mr. HAWLEY. How many instances were there like that of Mr. Parker's, in which it cost \$13.90? Was that a very exceptional instance, or were there many of them?

Mr. HAUGEN. That was an exceptional transaction. There is no dispute as to that.

Mr. HAWLEY. We have had one instance alleged. Are there many such, or is that only exceptional?

Mr. HUMPHREYS of Mississippi. Mr. Parker and Mr. Callaway, as I understood them yesterday, said that on a transaction of that sort the millman possibly would lose once in five years.

Mr. GLENNY. Mr. Marsh, if I remember correctly, Mr. Parker also made the statement, after being questioned along those lines, that the average was about 25 cents a bale.

Mr. MARSH. He made that statement in reply to a question.

Mr. GLENNY. He made that reply in answer to a direct question. So this is proved to be an exceptional case and a most exceptional case.

Mr. HAUGEN. The record will show what Mr. Parker stated.

Mr. MARSH. Shall I answer Mr. Haugen?

The CHAIRMAN. Yes; go ahead in your own way.

Mr. MARSH. Mr. Haugen, we have, in a cotton season like this, a situation of this kind: We have an enormous proportion of low-grade cotton in the crop. We have an unusually small proportion of high-grade cotton in the crop. The spinners of the world are all anxious for high-grade cotton; they prefer it to low-grade cotton. During the summer months preceding the marketing of the crop and during the early period of the marketing of the crop the spinners of the entire world are contracting for middling cotton and above. During the most active marketing season—September, October, November, and December—the filling of these contracts absorbs all of that and there are still left on the books of the merchants hundreds of thousands of bales of contracts for high-grade cotton to be delivered later in the year and there is not any high-grade cotton left. The cotton merchant, in entering into all these contracts ahead of time, must proceed on the assumption that the proportions of the different grades will be normal. He can not foresee that there are going to be violent storms in the cotton belt. That is the chance of his business. That is where the merchant comes in. That is the merchant's risk. It is true that in a season like this if a man makes a contract to deliver middling cotton in May, buys futures on the contract market, and sits still, when he comes along to May there is not going to be any middling cotton for him to buy.

• You heard Mr. Webb here say that he thought he could get a thousand bales of middling cotton for Mr. Parker. Mr. Parker said, "Well, I will sell it to you myself out of my mill." But merchants are not supposed to go to manufacturers and buy cotton out of their mills. Merchants are supposed to get their cotton out of the still unsold supply of cotton in the South. They do not figure on going to mills which have put it into their warehouses and getting it back from them. Mr. Webb, who is in the section of the South where this year the proportion of high-grade cotton was the highest in the whole belt, said, in answer to Mr. Parker, that it would be with great difficulty, that he should have a very hard time in getting just 1,000 bales of middling cotton. In the States of Oklahoma, Texas, and Arkansas, you can not get a thousand bales of middling cotton to-day, and you will not be able to get a thousand bales of middling cotton from now until next September. Middling is to-day a cornered commodity. It is cornered by the fact that merchants all over the South have contracted to buy it and deliver it and they can not get it. The price of that middling cotton through the South to-day does not represent the normal, natural price for middling cotton; it represents the necessities of people who have contracted to deliver it, and it is not there.

Mr. HAWLEY. Do you mean the merchants or the manufacturers?

Mr. MARSH. The merchants all over the South. There are, unquestionably, to-day, on the books of the cotton merchants in this country, I believe, 20 times as many contracts for the middling cotton as the actual bales of middling cotton left in the entire South, outside of the warehouses of the mills. If a man was so lacking in foresight, if he was so lacking in interpretation of the facts that he bought contracts away back in October and November as a hedge against middling cotton or strict middling cotton to be delivered in March or April or May or July, and just stood there and did not buy in that cotton and take care of himself he deserves to lose \$13.90 a bale, just as McFadden & Bro. deserved to lose what Mr. Parker said, in that colloquy that we had with Mr. Parker concerning that transaction between him and the firm of McFadden & Bro. McFadden & Bro. deserved to lose it. They ought to have bought the cotton when it could be bought and not have waited until this time to buy it.

Mr. HAUGEN. Of course there is one contract where there is no room for manipulation of grades; it is an out and out contract and where the speculator has got to take his medicine and pay the difference. As I understand it, you go to the exchanges and you buy a certain grade, and they will deliver 12 or 13—and some say more—grades. It is possible for the exchanges to take a certain grade of cotton worth 8 cents, and they may put the price up to 12 cents, or a difference of 4 cents, and they will say, "We will deliver you this 8-cent cotton at 12 cents," and that is exactly what you are doing now; you are delivering it at \$2.50 above its cash price. As I remember the figures, spot cotton was \$14 last fall when you bought, and spot cotton is \$14 to-day.

Mr. MARSH. Fourteen cents, you mean.

Mr. HAUGEN. Fourteen cents a pound or \$14 per hundred. It is the same thing. It, therefore, has depreciated \$2.50 through the manipulation of these grades. That is the statement before this

committee. Now, it is up to you and Mr. Parker and Mr. Callaway to straighten it out.

Mr. MARSH. There has not been any manipulation.

Mr. HAUGEN. I just take Mr. Callaway's word and Mr. Parker's word, and it is up to you people now to explain.

Mr. MARSH. There has not been the slightest manipulation.

Mr. HAUGEN. I am glad to know that.

Mr. MARSH. Absolutely none. In the first place, it is not a fact that anyone buying contracts on the New York Cotton Exchange buys a contract for the delivery to him of a single grade of cotton. When a man buys a contract on the New York Cotton Exchange he buys not a middling contract but a basis middling contract, which means that the man who sells it to him can deliver to him any one of the grades deliverable on contract at the proper money differences.

Now, how can anybody on the New York Cotton Exchange undertake to sell a man a contract for delivery in May and fulfill that contract in May with middling cotton when there is not any middling cotton? How can he do it?

Mr. HAUGEN. Oh, I agree with you there, but that is not the question at all. The question is, Where does the farmer come in in this expensive transfer? That is what I am getting at.

Mr. TAYLOR. Has the farmer anything to do with this transaction, Mr. Marsh, after the cotton once leaves his hand? His interest then ends in the transaction, does it not?

Mr. MARSH. As far as this immediate transaction is concerned, of course the farmer is not directly involved in it, but Mr. Haugen is perfectly correct in believing that the farmer is enormously interested, and that it does enormously affect the cotton producer, whether the form of the contract in New York and in New Orleans is a just and equitable form of contract or not.

Mr. TAYLOR. Of course that affects the entire trade.

Mr. HAUGEN. My contention is this, that that \$13.90 expense in the transaction has got to come out of the producer or the consumer, and the merchants are at one corner of it. The statement before this committee is this, that the only way that the spinner can protect himself is to go through this exchange, and that there is no other course open to him.

Mr. MARSH. No; you are mistaken.

Mr. HAUGEN. That is the statement here, that it is necessary to have the exchange in order to hedge, and this is the only source to go to.

Mr. MARSH. Mr. Haugen, that is not correct.

Mr. TAYLOR. Here is where Mr. Haugen's argument might be sound: If every transaction we have on the exchange, or every sale of cotton that is handled 12 or 14 times, was added, then there might be some question of taking it out of either the producer or the consumer, but it is my understanding of it that these particular transactions are very few, and they are entirely in the minority, and therefore the loss is absorbed by either of these parties in this particular transaction.

Mr. DOOLITTLE. That is not the average expense. It has been testified here that the average is 25 cents, Mr. Haugen, and not \$13.

Mr. HAUGEN. Oh, no; this is just one transaction; and another one was \$7.50, and add to that the commission and whatever the premium

was. That is the statement of Mr. Parker and Mr. Callaway. Those are exceptional cases.

Mr. DOOLITTLE. We are after the average.

Mr. HAUGEN. There is no way of ascertaining the average. The expense of one bale is \$13.90, and the testimony before this committee is that they sell 25 or 30 bales for every bale that is grown. If you multiply that by 25, where are you?

Mr. TAYLOR. Again, is that correct, that they sell so many bales more than they really have? As a matter of fact they make these hedging contracts, and if you are going to add to the hedging contracts and add the real contracts together, of course you do sell more.

The CHAIRMAN. Let me suggest, gentlemen, that Mr. Marsh is a witness and we are the jury. Mr. Parker has made a statement here. Mr. Callaway has made a statement, and we can find out what Mr. Marsh's viewpoint is by asking him the direct question; then the committee (the jury), when it comes to make up its mind, would reconcile those differences in their statements, if they can. It will expedite matters if we do not argue among ourselves and put the specific question to Mr. Marsh, to get his viewpoint. It is my desire to expedite this matter. We have got a lot of people here to be heard, and some of them have stayed here for a week.

Mr. HAUGEN. We have got a lot of people here to be heard, but, as I understand, we have not got a single farmer, whom we are supposed to legislate for.

The CHAIRMAN. Let this go into the record: Is it not a fact, Mr. Murph, that the clerk of the committee was authorized to and did send copies of the three bills—the Candler bill, the Lever bill, and the Senate bill as well as the cotton standardization bill—to the president of the National Farmers' Union, in the South, and to other prominent members of the Farmers' Union and other farmers in the South?

Mr. MURPH. Yes, sir.

The CHAIRMAN. And I have had a reply from only one president of a farmers' union, who is a constituent of mine, the president of the State Farmers' Union of South Carolina, saying that on account of other pressing engagements he could not be here. So the chairman of this committee has done all that he could do.

Mr. LEE. I want to state here also that I have written 25 or 30 letters to the presidents of farmers' unions in the South, and at least 20 letters to leading farmers in my section of Georgia, inviting them to be here on the 22d.

Mr. HAUGEN. I have stated here half a dozen times that I did not intend to reflect upon the chairman or any member of this committee. If there is anyone here who is interested in the farmer it is the chairman of this committee, and I do not question that they have had this notice; but unfortunately they are not here.

The CHAIRMAN. That is their fault and not ours.

Mr. HAUGEN. Certainly; I am not questioning that. But, after all, if this legislation is in the interest of the farmer and the cotton grower we ought to have some facts on which we can frame this bill.

The CHAIRMAN. That is true, and that is why I suggest if we will allow Mr. Marsh to make a statement to develop the facts we will have the facts.

Mr. HAUGEN. My question was, Where does the farmer come in?

The CHAIRMAN. Instead of letting Mr. Marsh answer your question, the members of the committee have been arguing that proposition among themselves, and Mr. Marsh has been standing there like a stone wall.

Mr. MARSH. I am complimented, Mr. Chairman, by the comparison.

Mr. HEFLIN. Mr. Haugen's statement is that it cost \$13.90 to handle a bale of cotton, and another statement was that it cost \$7.50. Mr. Glenney says about 25 cents. Twenty-five cents on a bale would be \$25 on 100 bales and \$25,000 on a million bales and \$25,000,000 on 100,000,000 bales, which it has been admitted have been traded in on the exchanges.

Mr. HAUGEN. Whose statement will we take? Will we take the statement of the president of the board of trade or the statement of the spinner?

Mr. HEFLIN. The point I am getting at is that even if it is as much as 25 cents a bale on 100,000,000, which is admitted, and I think it is 500,000,000, that amounts to \$25,000,000.

The CHAIRMAN. Again, gentlemen, I say that we are arguing among ourselves.

Mr. GLENNY. Mr. Chairman, I would like to get the record straight, because Mr. Heflin has attributed to me a remark which I did not make, I think, exactly. I said Mr. Parker had said that it costs about 25 cents a bale. That does not mean that it costs everybody 25 cents a bale.

Mr. MARSH. Of course, 25 cents a bale is simply on the crop and is not on the hedges. It is simply on the crop. Fifteen million bales, at 25 cents a bale, is \$3,750,000, if my arithmetic is correct. That is what it means. It does not mean 25 cents a bale on every one of these intermediary transactions.

The CHAIRMAN. In order to get your statement of the facts, let me ask you this question: What, in your judgment, is the cost of insurance on a bale of cotton through the various exchanges of the country? That gets a direct answer to the proposition, and we can reconcile these facts when we come to consider this matter in the committee.

Mr. MARSH. In a normal season the cost of insurance is virtually nil.

Mr. HEFLIN. About how much?

Mr. MARSH. In a normal crop season, in which the grades of cotton are in their normal proportion, the cost of insurance is virtually nil. In an abnormal season, where some section of the belt has a very high proportion of low-grade cotton and incurs a heavy loss thereby, a part of that loss is transferred through the exchanges to cotton manufacturers and cotton merchants to make good of their losses. It is true that Texas, Oklahoma, and Arkansas this year have got some of the money of cotton manufacturers and cotton merchants, and that is what I call insurance. This notion of insurance where nobody loses anything, where the man whose building is burned down somehow gets his money and all the other people who are insured do not put in anything, is a notion of insurance which I can not understand.

The CHAIRMAN. Now, Mr. Marsh, will you proceed and discuss the grades of cotton which you would eliminate from the present contract? Suppose you continue that discussion.

Mr. MARSH. Mr. Chairman, the natural question to be considered in determining the lower limit of grades of cotton deliverable on contracts is how much cotton is going to be excluded, and where that cotton which is excluded is going to be. If the cotton that is to be excluded is scattered uniformly all over the South, obviously Congress can properly go much further and be much more rigid in its provisions, because no single person is going to be very much hurt. If, however, the low-grade cotton in a crop is bunched, is in certain sections, then if Congress, in its legislation, is severe, the severity is entirely at the expense of the producers of cotton in those sections where there is a high proportion of low grades. This year, for example, cotton which was so good that Mr. Parker and Mr. Callaway both bought it by the tens of thousands of bales, was sold by Texas producers at  $4\frac{1}{2}$  to 5 cents a pound, when if it had been just a little better and deliverable on contracts in New York it would have been worth 9 to 10 cents a pound. It is a fact, Mr. Chairman, that this year, even such limitations as there has been on the delivery of cotton in New York, has made thousands of spinners with the scientific skill to use low-grade cotton make inordinate profits at the expense of the cotton producers in Texas, Oklahoma, and Arkansas. That is true not only in this country, because we know perfectly well in the North that there are spinners in the Carolinas and in Georgia who have bought that low-grade cotton in Texas and the storm-stricken district and have made from \$10 to \$15 a bale more in their manufacturing processes than they expected to make or would make in a normal cotton season.

Mr. RICE. They even bought our rejections.

Mr. MARSH. Yes; they bought rejections in New York and made an enormous profit. But it is not only those spinners in the South, Fall River, and New England that have done this. The fact that there was this low-grade cotton in Texas, Oklahoma, and Arkansas, undeliverable on contracts, has turned what was expected by the German spinners to be a disastrous year for them into a year of good profits; and the German spinners, being the most scientific spinners in the world, know how to use this low-grade cotton. The German spinning industry was flat on its back before this season opened. The German spinners now are making excellent profits. The outlook of the German mills is as good as it has ever been, in spite of financial troubles in Germany, and so on, because the German spinners have bought hundreds of thousands of bales of this cotton in Texas, Oklahoma, and Arkansas, and have made out of the manufacture of it \$10 a bale more than they could make out of the manufacture of cotton in a normal year.

The CHAIRMAN. Do they use the exchange for hedging purposes?

Mr. MARSH. Certainly they do. Now, gentlemen, it may be a very fine thing for the people in Mr. Young's district to put the German spinners on their feet.

Mr. YOUNG. They could not make that out of cotton like they got this year. The farmers did not get enough out of the cotton to pay for picking it.

Mr. MARSH. Mr. Young, if the legislation framed by this committee is not framed with exceeding care, what happened to you this year will not be a patch on what will happen to you the next time you get a storm, because this year the New York Cotton Exchange,



which is denounced and denounced because it allows the delivery of low-grade cotton, has been there taking the hedge sales against hundreds and hundreds of thousands of bales of that cotton that were good enough for delivery in New York. And that is what has given that cotton any value above a—what shall we say—bargain-counter value.

The CHAIRMAN. My understanding of the farmers' statements before the committee was to the effect that this low-grade cotton in Texas was brought up into the interior, carried to Galveston, I believe, there revamped by some process of machinery and sold to the German spinners at very high prices, prices that would average along middling.

Mr. MARSH. The total machinery in Texas which could be had to do that is not sufficient to handle 40,000 bales in a year.

Mr. CONE. That cotton is outlawed in this country. It is not deliverable on contract.

The CHAIRMAN. That would be called reginned cotton, would it?

Mr. MARSH. That is machined cotton.

The CHAIRMAN. All right. You may proceed.

Mr. MARSH. What has been the situation this year with regard to low-grade cotton? In the Atlantic States the amount of it has been small in proportion to the total production.

Mr. HUMPHREYS of Mississippi. May I ask you just one other question there. Referring to this cotton that was of such a low price in Texas this year, was that low price due to the grade or to a manipulation?

Mr. MARSH. Most of it was due to the grade. But this is true, as indicated before, that spinners like Mr. Parker have been glad to buy it at the cheap prices at which it could be bought in Texas.

The CHAIRMAN. About what would be the bulk of the crop of Texas this year—Texas, Oklahoma, and Arkansas?

Mr. MARSH. Tennessee also was badly affected.

The CHAIRMAN. What grade would that measure, in your opinion?

Mr. MARSH. I can give you the figures of these correspondents in these States, which are naturally subject to the same qualifications that I mentioned yesterday, that there is a great disparity of opinion among them, but that they must represent the general judgment of persons who are down in Texas.

We find, for instance, in Texas, that, taking first the proportion of the crop belt that would conform or that would not conform to the provisions in the Lever bill—take that first, the House bill—we find that B. W. Lotspeich, in Abilene, says that in a normal year 10 per cent of the crop, and in a year like the present year, 20 per cent of the crop would not be deliverable on contracts. In Abilene the storm was not severe. This is in a district where the storm was not particularly destructive.

E. H. Perry & Co., Austin, in a normal year, 20 per cent; in a year like the present year, 50 per cent.

G. A. Bennett, Austin, in a normal year, 5 per cent; in a year like the present, 25 per cent.

There are two people in the same locality that give materially different opinions.

Polk-Wilson & Co., Bartlett, in a normal year, 20 per cent; in a year like the present year, 18 per cent.

King Cotton Co., Dallas, in a normal year, 6 per cent; in a year like the present year, 12 per cent to 20 per cent.

H. L. Edwards & Co., Dallas, this being one of the most responsible firms in Texas, in a normal year, 10 per cent; in a year like the present year, 30 per cent.

William B. Starr & Co., Dallas, in a normal year, 4 per cent; in a year like this year, 8 per cent. Starr & Co. are decidedly small shippers. H. L. Edwards & Co. are very large shippers—among the large shippers in Texas. They say in a normal year 10 per cent, and in a year like this year 30 per cent; whereas the small shipper says in a normal year 4 per cent and in a year like this, 8 per cent.

A. L. Wolff & Co., Dallas, in a normal year, 15 to 20 per cent; in a year like the present year, 25 to 30 per cent.

C. F. Witherspoon, Denton, Tex., says that in a normal year 30 per cent of the cotton in that territory, and in a year like the present year 65 per cent would not be deliverable on contracts under the provisions of the House bill.

Tom B. Owens & Co., Fort Worth, say that in a normal year 10 per cent, and in a year like the present year 20 per cent would not be deliverable.

K. Tidemann & Co., Fort Worth, in a normal year, 10 per cent; in a year like the present year, 25 per cent.

Eustace Taylor, Galveston, in a normal year, 12 per cent; in a year like the present year, 30 per cent.

Wilson Moodie, Gainesville, in a normal year, 10 per cent; in a year like the present year, 20 per cent.

Blocker Miller Co., Honey Grove, in a normal year, 25 per cent; in a year like the present year, 50 per cent.

R. R. Dancy & Co., Houston, in a normal year, 20 per cent; in a year like the present year, 65 per cent.

Dorrance & Co., Houston, in a normal year  $\frac{1}{2}$  per cent to 2 per cent; in a year like the present year, 11 per cent to 37 per cent.

That is an extraordinary answer, but it is here as it was given.

T. A. Johnson, Paris, Tex., in a normal year, 20 per cent; in a year like the present year, 40 per cent.

Wilde & Orme, Paris, Tex., in a normal year, 10 per cent; in a year like the present year, 20 per cent.

A. A. Zizinia, Taylor, Tex., in a normal year, 25 per cent; in a year like the present year, 60 per cent.

James T. Brook, Waco, Tex., in a normal year 15 per cent; in a year like the present year, 30 per cent.

Crespi & Co., Waco, Tex., in a normal year, 10 per cent; in a year like the present year, 25 per cent.

You get there, gentlemen, not exactly, because nobody knows exactly, but you get there a picture of the amount of cotton in that storm-stricken territory which would have been excluded from contracts and depreciated in value from \$10 to \$25 a bale if this bill had been the law this year.

The CHAIRMAN. It was Mr. Neville's estimate, as I recall it, that the exclusion would amount to 20 per cent or 25 per cent. Is my recollection correct on that?

Mr. MARSH. I have here the exact figures on that; but that was not an estimate. That was a statement of the actual business done by his firm in two high-grade years.

The CHAIRMAN. It did not take in this year at all?

Mr. MARSH. No; it did not take in this year at all. I have that right here somewhere.

Mr. George W. Neville, of the firm of Weld & Neville, who were very large handlers of cotton in Texas, prepared, before his death last summer, a statement of the actual number of bales and percentages of the grades in the cotton actually handled by the Houston office of his firm in the season 1911-12 and the season 1912-13, and this was prepared at the time the Smith-Lever substitute for the Clark amendment was under consideration, and his figures show that in 1911-12, which was a high-grade crop year, 22.66 per cent of the Texas crop, just by their transactions, would have been excluded from delivery under the Smith-Lever bill.

The CHAIRMAN. The Smith-Lever substitute did not fix any limit except the Government standard?

Mr. MARSH. No; all the Government standards.

The CHAIRMAN. Your lowest grade there is good ordinary, is it not?

Mr. GLENNY. Good ordinary.

Mr. MARSH. I beg your pardon, Mr. Chairman—this gives the proportions below low middling. Was it not proposed at one time in the Smith-Lever bill to have the lower limit low middling?

The CHAIRMAN. No; I think not. I think the only limitation was the Government standard—must grade in the Government standard—but that would be valuable in this connection.

Mr. RICE. I think that was based on low middling.

Mr. MARSH. These, of course, were based on low middling.

The CHAIRMAN. That makes it all the more valuable.

Mr. MARSH. The proportion under low middling for the crop of 1911-12, based on the actual cotton handled by his firm, would have been 22.8 per cent, and in the crop of 1912-13, which was another grade crop of Texas, 16.9 per cent.

I will put that in as an exhibit.

The CHAIRMAN. Without objection you may do so.

(The paper is as follows:)

*Proportions of the various grades of cotton found in the actual business of a large firm in Texas for the seasons 1911-12 and 1912-13.*

1911-12.

	Bales.	Per cent of total.
Deliverable on exchange contracts under Smith-Lever proposed law:		
Strict good middling and above.....	919	0.7
Good middling.....	16,094	12.2
Strict middling.....	37,003	28.2
Middling.....	25,910	19.7
Strict low middling.....	14,065	10.7
Low middling.....	7,043	5.7
		77.2
Not deliverable on exchange contracts under Smith-Lever proposed law:		
Strict good ordinary.....	7,087	5.4
Good ordinary.....	5,439	4.1
Strict ordinary.....	1,386	1.0
Ordinary.....	257	.2
Tinged cottons.....	12,751	9.7
Stained cottons.....	516	.4
Sandy cottons.....	2,719	2.0
Samples and repects.....	75	.0
Total number of bales handled.....	131,264	22.8

The total cotton crop in 1911-12, not including linters, was roughly 15,600,000 bales.

*Proportions of the various grades of cotton found in the actual business of a large firm in Texas for the seasons 1911-12 and 1912-13—Continued.*

1912-13.

	Bales.	Per cent of total.
<b>Deliverable on exchange contracts under Smith-Lever proposed law:</b>		
Strict good middling and above.....	1,250	0.4
Good middling.....	23,424	15.3
Strict middling.....	44,467	30.0
Middling.....	31,426	21.2
Strict low middling.....	16,610	11.2
Low middling.....	5,996	4.1
		<b>83.1</b>
<b>Not deliverable on exchange contracts under Smith-Lever proposed law:</b>		
Strict good ordinary.....	1,475	1.0
Good ordinary.....	252	
Strict ordinary.....	50	.3
Tinged cottons.....	23,061	15.6
Stained cottons.....	105	
Sandy cottons.....	1	.1
Samples and repacks.....	50	
<b>Total number of bales handled.....</b>	<b>148,196</b>	<b>14.9</b>

The total cotton crop in 1912-13, not including linters, was 13,550,000 bales.

The above tables are for Texas, and for two seasons in which the proportion of high-grade white cotton was decidedly above the normal. The proportion of tinged cottons, which are caused by frosts touching the still unmaturing bolls, is always much lower in Texas than in the States along the northern border of the cotton belt—Oklahoma, Arkansas, Tennessee, northern Mississippi, northern Alabama, northern Georgia, and the Piedmont section of the Carolinas. The average production of tinged and low grade cottons in normal seasons is certainly over 20 per cent of the total crop.

The CHAIRMAN. Now, Mr. Marsh, if you have concluded your general statement on that proposition let me ask you what would be your affirmative suggestions on this proposition as to the lowest grade deliverable.

Mr. MARSH. Mr. Chairman, unless you are going to have, in the course of the next few years, a violent upheaval among the cotton producers, you will find it absolutely unsafe to have the lower limit higher than good ordinary, Government standard, and you will probably, even at that limit, be subject to very severe criticism, first from this section of the belt and then from another section of the belt, which happens to be visited by storms or to have a high proportion of low-grade cotton, because the producer will get onto the fact that all this reformatory legislation has been at his expense, and he will not stand for it when he finds it out.

We all agree that some cotton has to be excluded from delivery on contract. Everybody in the trade agrees to that, and the producer himself, when he is not smarting under heavy losses, will agree to it. But when you go so far that you produce a situation in which the farmer knows that cotton he has produced, and the best he could produce under the weather conditions that he had to deal with, is being debarred from contract delivery, and consequently depreciated 3, 4, or 5 cents a pound, and that the spinner is buying it and making money at his expense, you are going to have an uprising from the cotton producers of the South that will disturb and destroy this legislation.

The CHAIRMAN. Is not this a fact, Mr. Marsh, that the spinners to-day are buying cotton in the South at anywhere from 1 to 1½ cents higher than the quotation of the New York Exchange, and would it not be safe to assume that if the spinners who need this low-grade cotton which would be outlawed for delivery on contract for delivery in New York, and found that they could manufacture it at a profit, that they would buy that cotton above the New York quotation, as they are doing to-day in the South?

Mr. MARSH. Mr. Chairman, the whole question with regard to what happens to the cotton producer is what happens to him at the time when he has to sell his cotton.

The CHAIRMAN. I appreciate the fact that that is true; yes.

Mr. MARSH. The whole question with regard to the cotton producer is what happens to him during the heavy selling months. Now, it is mighty small consolation to the cotton producer who has to sell his cotton in October, November, and December, all in a mass, and has to take 3 or 4 or 5 cents a pound below the price of contracts—grade for grade, I mean—for that cotton, to know that somebody bought it at that low value, carried it along, and either manufactures it into goods or sold it out at 4 to 5 cents a pound profit to himself.

The CHAIRMAN. You and I are in agreement upon this proposition, that there must be fixed a limit of exclusion of certain kinds of cotton for delivery upon contract.

Mr. MARSH. Absolutely; yes.

The CHAIRMAN. I think we are also agreed upon this proposition, that it is not fair to the whole cotton-producing belt of the South that a calamity in the State of South Carolina, for instance, should depreciate the entire cotton crop of the country.

What character of cotton would you exclude from delivery?

Mr. MARSH. Let me first say, Mr. Chairman, that if there is a calamity in any considerable portion of the belt the cotton of the rest of the belt is necessarily appreciated. That is what has happened this year. The price of middling cotton—spot cotton, as you all call it here—has been appreciated by reason of the sufferings of the people in Texas, Arkansas, and Oklahoma. There is no greater economic fallacy than this assumption that the price of contracts in New York, when it at times gets away from the quotation of middling cotton in the South pulls down the price of middling cotton. That is a matter of statistical and not of theoretical fact. The statistics show that there has not been a single time in the history of the cotton industry when the market price of cotton contracts in New York has declined below middling cotton when middling cotton has not actually gone up in value. There is not one case; and that is a matter of statistics, and it is not a matter of theory.

The CHAIRMAN. But is that not due, Mr. Marsh, not to the fact of the existence of the exchanges, but rather in spite of their existence? Is it not due to the fact that the spinners, who want this high grade cotton, are willing to bid for it at a premium above the quotation of futures in New York?

Mr. MARSH. No, Mr. Chairman. It is in no inconsiderable degree due to the fact that merchants, and to some extent spinners, have, before they thoroughly realize what the effect of the destruction in grade of a large part of the crop was going to be, entered into en-

gements for the better grades of cotton to an extent beyond the supply, hedging those engagements with contracts in New York or in New Orleans.

The CHAIRMAN. It seems to me, then, that the price of your contract in New York would be very much higher than the spot price of these things in the South.

Mr. MARSH. I do not understand why.

The CHAIRMAN. It seems to me that if these men had entered into a contract which they could not fulfill that that contract would immediately appreciate in value.

Mr. MARSH. Why?

The CHAIRMAN. According to the law of supply and demand; you can not fill your contract.

Mr. MARSH. You can not fill your contract with middling cotton when it does not exist, certainly.

The CHAIRMAN. That is true.

Mr. MARSH. You can not fill your contract with strict middling cotton when it does not exist.

The CHAIRMAN. That being true, would it not raise the value of your basis contract?

Mr. MARSH. It can not possibly raise the price of contracts which represent the cotton that is available, as the basis contract does. The price of the thing that is not available, or is available to a far less extent than the requirements, must necessarily appreciate compared with the value of that which is available in quantity. That is the explanation of the difference between the price of middling cotton to-day and the price of such cotton as is available in every futures market in the world. In Liverpool we have got exactly the same situation at this minute; we have got it in Bremen at this minute; we have it in Havre at this minute; we have it in New Orleans; we have it in New York. It is a universal phenomenon.

The CHAIRMAN. Suppose you make your suggestion of what grade of cotton should be excluded, so we will have it in the record.

Mr. HUMPHREYS of Mississippi. May I ask a question?

The CHAIRMAN. Yes.

Mr. HUMPHREYS of Mississippi. The price of middling, what we call spot cotton, is governed by the quotations of the New Orleans Exchange?

Mr. MARSH. Certainly not.

Mr. HUMPHREYS of Mississippi. Is the difference as great as it is in the New York Exchange.

Mr. MARSH. Not quite. I think it is about 20 points less, is it not, Mr. Glenny?

Mr. GLENNY. I do not know the exact figures.

Mr. MARSH. It should be more in New York, because New York to-day has a contract which allows the delivery of lower grades of cotton than does the contract in New Orleans; that is, the amount of available cotton that can be delivered in New York to-day is much greater than the amount of available cotton that can be delivered in New Orleans. Therefore, the New Orleans contract ought to be nearer the price of middling cotton than the New York contract, and I think it is 20 to 25 points nearer.

Mr. GLENNY. Yes; that is true now. It has been closer than that; considerably lower than it is now.

Mr. HUMPHREYS of Mississippi. May I ask you another question? Along in October or November or December, or say along in October and November, perhaps, are the future market and the price of spots as far apart as they are later on in the spring, after the farmer has sold his cotton and it has been ascertained just how much middling cotton there is?

Mr. MARSH. Normally, Mr. Humphreys, the difference between the contract price in New York or New Orleans and the price of middling cotton in the markets of the South—the two prices are very close together in October and November. The widening out in an abnormal year like this takes place after that, and it takes place just in proportion as the good grades of cotton are grabbed up and removed.

Mr. HUMPHREYS of Mississippi. In a normal year or in a particularly good year would the future quotations in New York and in New Orleans, too, be nearer the spot price?

Mr. MARSH. In a normal year?

Mr. HUMPHREYS of Mississippi. In a normal year or even in a good year.

Mr. MARSH. In a good year the two prices are very close together.

Mr. HUMPHREYS of Mississippi. Very close together?

Mr. MARSH. In a normal year they are reasonably close together, and in an abnormal year like these two, in 1906-7, they get wide apart.

The CHAIRMAN. All right, Mr. Marsh; suppose you go back to the question, because I think it is important that we have it in the record.

Mr. MARSH. In my opinion, Mr. Chairman, the line of danger with regard to this legislation is good ordinary Government standard. I think that, to use a slang expression, you may "get away with it" if you make the lower limit of your delivery good ordinary Government standard.

The CHAIRMAN. That would be what, by your classification, Mr. Marsh?

Mr. MARSH. Between strict good ordinary and low middling. If you make it as high as low middling, in my opinion, the legislation will contain within itself elements of its own destruction. In other words, it can not be many years before we have another season like this, afflicting, perhaps, not Texas and Oklahoma, but afflicting Alabama, Georgia, or the Carolinas; and when you get another season like this, and the producers in the afflicted section make out what has been done to them by Congress, you will have a wave of indignation from those producers which will destroy the legislation. Personally, I have always shared the feeling of the late George Neville, that every spinable bale of cotton in a crop ought to be deliverable on some basis on a contract. It is obvious, however, that the South generally, which very rightly has the determining word in this matter, does not want it so, and it is of no use for me to contend for it, and it would not be any use for the New York Cotton Exchange to contend for it, and, in fact, I believe a large majority of the members of the New York Cotton Exchange agree with the South, so that when I say what I did I am really speaking for myself and not for the New York Cotton Exchange or a majority of its members; but I certainly think this: That any limitation on the deliverers' contracts which places the limit higher than the Government stand-

ard of good ordinary means legislation that can not stand, because it is legislation, as I have said several times, which will so arouse the indignation of the producers of cotton in the South as they realize what has happened to them—what has been done to them by Congress—that they will not let it stand.

The CHAIRMAN. Have you completed your statement as to that section of the bill?

Mr. MARSH. Yes.

The CHAIRMAN. Then I wanted to ask you just one question, and I would like to have a categorical answer from you. The tax levied by the provisions of this bill is 25 cents per hundred bales. In your judgment, would that tax be of such a nature and of such a degree of quantity as would be transferred to the farmer as an overhead charge?

Mr. MARSH. It would sometimes be transferred to the farmer and sometimes to the manufacturer. In other words, it is like all margins between the buying price and the selling price. In years of the scarcity of cotton it would unquestionably be transferred to the world at large; in years of a large supply of available cotton it would probably be transferred to the producer of the cotton.

The CHAIRMAN. Assuming that the committee in its wisdom should reduce that from 25 cents a hundred bales to 5 cents a hundred bales, would it be possible to transfer that small tax back to the farmer?

Mr. MARSH. In principle it does not make any difference what the amount of the tax is. Of course, that would be so insignificant—and in fact 25 cents a hundred bales, Mr. Chairman, is so insignificant—that it would be lost in the shuffle.

The CHAIRMAN. That is what I want to get at. I want the practical effect of it. Theoretically it would go back to the producer, but in practice would it go back to him?

Mr. MARSH. No.

The CHAIRMAN. All right.

Mr. MARSH. I mean it would simply be absorbed in the general expenses of the business.

The CHAIRMAN. Now, then, I think you want to take up paragraph 6 of the House bill. That is your pro forma proposition.

Mr. MARSH. No; before I come to that, Mr. Chairman, I want to speak on the subject of the method of fixing the differences.

The CHAIRMAN. All right.

Mr. MARSH. The provisions of the House bill, if I may be permitted to say so, seem to me a little indeterminate as respects the functions of the Secretary of Agriculture. That is, it seems to me that the lines are not sharply drawn as to what he must do, what he may do, and when and under what conditions he shall take certain steps, etc. Under the provisions of that section as it now stands we should have a situation which I think the cotton exchanges could not possibly deal with, and before giving my reasons let me say what seems to me to be the conclusion derived from the conditions as they exist. The conclusion I arrived at, and which I think has been arrived at by members of the New York Cotton Exchange who have studied the question, is that the determination of the differences between the grades should be left entirely to the Secretary of Agriculture, that the whole responsibility should be thrown on the Secretary of Agriculture. The reason for that is



that if the Secretary of Agriculture simply designates 5 places or 8 places or 10 places in the South and leaves it to the cotton exchanges to use the quotations from those places, the cotton exchanges will certainly be in a position of having mechanically to use quotations many of which they know do not represent actual transactions in specific grades of cotton in those markets, and chances for manipulation come in. For instance, you know the situation to-day with regard to middling cotton. You know there is none. Now, let us take the case of strict middling cotton. Let us assume that one of the places designated by the Secretary of Agriculture is Little Rock, Ark. It is perfectly possible for any man who has enough at stake to go into Little Rock, Ark., and without buying 500 bales of cotton put the difference between middling and strict middling cotton up to 10 cents a pound, because there is not any strict middling cotton in Little Rock, Ark. You could not get 100 bales there. Now, it is our feeling that we ought not to have put up to us a situation of that kind to deal with.

The CHAIRMAN. Now, Mr. Marsh, is that exactly correct? Would not that difference, under the terms of this bill, be fixed by the actual commercial difference in the value thereof established by the sale of spot cotton of the same grade? Now, if there is no strict middling cotton in Little Rock, Ark., there could not be any sale of that.

Mr. MARSH. He gets 10 bales of strict middling cotton in, we will say, Liverpool, and ships it to Little Rock, Ark., for the very purpose.

Mr. RICE. Or the operator holds that amount on hand for the very purpose of making up for that difference.

Mr. MARSH. That is a better statement.

The CHAIRMAN. I see your point. I confess I have had fear of this proposition myself, and I would like to hear your suggestions.

Mr. MARSH. It is our opinion, then, that if the Secretary of Agriculture simply designates the places whose quotations must be used in an average by us, we shall be put in a position which is, to use Mr. John Hill's expression, algebraic, or possibly something a great deal worse than algebraic, and that the only result would be a succession of scandals. Honestly, that is what we think would happen—that there would be a succession of scandals.

The CHAIRMAN. Would you give the Secretary of Agriculture plenary power to fix these differences?

Mr. MARSH. The logic of this proposition requires that, in my opinion, Mr. Chairman.

The CHAIRMAN. Would you be afraid to give the Secretary of Agriculture the tremendous power or would you trust him, as we have had to trust him in other matters?

Mr. MARSH. Mr. Chairman, I should not be afraid to give him discretion, but if I were the Secretary of Agriculture and it was put up to me to do this, I should resign within 10 minutes.

The CHAIRMAN. Now, that being the case, and assuming that all of us are human in the same degree, you would not be in favor of this section at all on any kind of system?

Mr. MARSH. The logic of this legislation demands it, Mr. Chairman.

The CHAIRMAN. I know, but if the logic of a proposition leads you to a conclusion which makes it impossible for any man to accept the responsibility, then the other logic on that is that the bill itself fails and that the legislation is illogical and ought not to pass.

Mr. MARSH. I am not ready to follow you in that syllogism, Mr. Chairman.

The CHAIRMAN. It seems to me it is perfectly conclusive.

Mr. MARSH. I do not think we need go so far as that, and I think the Department of Agriculture can arrive at differences which the trade can use on the cotton exchanges.

I think the Department of Agriculture will undoubtedly at times cause great disturbances in the cotton trade. I do not see how it is avoidable on this system. But in confirmation of my argument that this should be put up to the Secretary of Agriculture rather than left to the exchanges, I should like to weary the committee with a few letters from southern cotton exchanges, with regard to the method which they now use in determining differences.

When this bill came into our hands we wrote to all of the southern cotton exchanges and boards of trade, asking them what they actually had now in the way of practice in this matter, because we wanted to find out what we should ourselves have to face—what to deal with.

Take here the Memphis Cotton Exchange, which, as the members of this committee will remember, has adopted and sent to you a memorial bitterly denouncing the New York Cotton Exchange by reason of the contract and by reason of the fact that we have fixed differences, as they call them. The president of the Memphis Cotton Exchange says, in a letter to Mr. Cone:

Replying to your inquiry of 7th instant, I would say that the differences on and off middling in the Memphis market, as promulgated by the regular committee on classification and quotations of the Memphis Cotton Exchange, are made at three fixed periods annually, viz, the third Thursdays of September, November, and February.

Mr. HEFLIN. When are yours made, Mr. Marsh?

Mr. MARSH. In September, November, and February.

Mr. HEFLIN. The same time?

Mr. MARSH. Absolutely.

The irony of this situation is to some extent brought out by the fact that the Memphis Exchange adopted and filed a denunciation of the New York Exchange for having fixed differences instead of commercial differences.

I inclose you carbon copies of the differences prevailing during the present season, which embraces white cotton as well as tinges and stains. The differences are based on actual sales of spot cotton in the Memphis market on set dates.

No cotton was produced this season in the Memphis territory that would fall of acceptance on the United States Government standards because of trash or color.

As to your inquiry for an estimate of amount of cotton produced in this territory that would be below seven-eighths inch in staple, would say, in a normal year, none, and in a drought year, 5 per cent.

I should like to file that, with its inclosures, with the committee.

The CHAIRMAN. Without objection, it will be received.

(The papers referred to are as follows:)

MEMPHIS COTTON EXCHANGE,  
Memphis, Tenn., April 16, 1914.

EDWARD K. CONE, Esq.,

President New York Cotton Exchange, New York, N. Y.

DEAR SIR: Replying to your inquiry of 7th instant, I would say that the differences on and off middling in the Memphis market, as promulgated by the regular committee on classification and quotations of the Memphis Cotton Exchange, are made at three fixed periods annually, viz, the third Thursdays

of September, November, February. I inclose you carbon copies of the differences prevailing during the present season, which embraces white cotton, as well as tinges and stains. The differences are based on actual sales of spot cotton in the Memphis market on said dates.

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Very respectfully,

C. A. LACY, President.

*Differences off and on middling in the Memphis market Sept. 22, 1913.*

	White.		Off colored and light tinges.	
	On.	Off.	On.	Off.
Middling fair.....	\$1.00	.....	\$0.75	.....
Strict good middling.....	.75	.....	.60	.....
Good middling.....	.50	.....	.25	.....
Strict middling.....	.25	.....	Even.	.....
Middling.....	Basis.	.....		\$0.25
Strict low middling.....		\$0.25		.50
Low middling.....		.625		.875
Strict good ordinary.....		.6375		1.1875
Good ordinary.....		1.25		1.50
Strict ordinary.....		1.75		2.25
Ordinary.....		2.50		2.75

*Differences on and off middling in the Memphis market Nov. 20, 1913.*

	White.		Light tinged.		Deep tinged and stained.	
	On.	Off.	On.	Off.	On.	Off.
Middling fair.....	\$1.00	.....	\$0.50	.....	Nominal.	.....
Strict good middling.....	.75	.....	.25	.....	Even.	.....
Good middling.....	.50	.....	Even.	.....		\$0.25
Strict middling.....	.20	.....		\$0.25		.50
Middling.....	Basis.	.....		.50		.75
Strict low middling.....		\$0.25		.75		1.25
Low middling.....		.75		1.25		1.75
Strict good ordinary.....		1.10		1.50		2.25
Good ordinary.....		1.60		2.00		2.75
Strict ordinary.....		2.10		2.50		Nominal.
Ordinary.....		2.75		3.25		Nominal.

*Differences on and off middling in the Memphis market Feb. 21, 1913.*

[As promulgated by the committee on classification and quotations.]

	White.		Light tinged.		Deep tinged and stained.	
	On.	Off.	On.	Off.	On.	Off.
Middling fair.....	\$1.35	.....	Nominal.	.....	Nominal.	.....
Strict good middling.....	1.00	.....	\$0.50	.....	\$0.10	.....
Good middling.....	.75	.....	.25	.....	Even.	.....
Strict middling.....	.50	.....	Even.	.....		\$0.40
Middling.....	Basis.	.....		\$0.30		.75
Strict low middling.....		\$0.25		.75		1.35
Low middling.....		.85		1.25		1.85
Strict good ordinary.....		1.25		1.60		2.35
Good ordinary.....		1.85		2.20		2.85
Strict ordinary.....		2.30		2.70		Nominal.
Ordinary.....		3.00		3.45		Nominal.

Mr. MAGUIRE. Is it your idea that the Secretary of Agriculture in making up these quotations would take into consideration his forecast of the crops, the supply and demand, or would he go through a mechanical program, simply taking the quotations of several markets?

Mr. MARSH. Under the provisions of this bill the Secretary of Agriculture would rely upon a mechanical average of quotations for the different grades of cotton made in a certain number of markets six days before delivery day on the cotton exchange.

Mr. MAGUIRE. Do you think the Secretary of Agriculture ought to take into consideration the other information which he may have?

Mr. MARSH. Assuming that this whole thing is thrown upon the Secretary of Agriculture, it will be necessary for the Secretary of Agriculture to issue daily, throughout the whole year, an official statement of the differences between grades, because cotton is being delivered every business day in the year, and those who are to deliver six days from to-day must have had the Secretary of Agriculture's statement of the differences between grades. Therefore the Secretary of Agriculture will be called upon to issue, every single day of the year, an official statement of differences in value for all the grades of cotton.

Mr. RICE. May I ask Mr. Marsh a question?

The CHAIRMAN. Yes, sir.

Mr. RICE. Would it be necessary, Mr. Marsh, to issue the bulletin every day? Why not issue it as often as any commercial necessity may arise?

Mr. MARSH. How is anyone to know what he is to deal with? As these things all reach into the future, how is anybody going to know what he is to deal with unless there is a daily statement?

Mr. RICE. My answer to that, Mr. Chairman, would be that the differences on the exchanges would be fixed by the last bulletin issued by the department until further change is made by the department.

Mr. HEFLIN. And it would not have to be issued every day?

Mr. RICE. I do not think so. I do not like to disagree with Mr. Marsh on that, but I should hardly think there would be any necessity for it.

Mr. MARSH. However, it would amount to the same thing in practice, because the Secretary would have to have the machinery in constant operation to be ready at any moment of any day to make changes if new conditions arose.

Mr. HEFLIN. Do you not believe, Mr. Marsh, that there ought to be some Government board or court, or whatever you might call it, to settle disputes between the man buying and the man selling cotton as to the particular grade? For instance, suppose a spinner would buy 100 bales of cotton from some man or firm or cotton merchant and he contracted for strict middling cotton, and the man selling comes up and says, "Here is the cotton." The spinner takes it and looks at it and says, "That is not the grade of cotton I bought. That is not strict middling." He says, "But it is; every expert in my section that I have had to go over it says it is and that it does comply with the contract. It is strict middling." But he says, "It is not; my man says it is not." There is a difference between them that would amount to a great deal of money one way

or the other at a price per pound. Should they not have a court, disinterested, to classify that cotton and pass upon that point and decide whether the man selling was correct or whether the man buying was correct?

Mr. MARSH. The logic of this legislation, Mr. Heflin, is that there should be such a body or such a governmental court; and in that connection I would say that the New York Cotton Exchange would not in the slightest discourage the idea of having the classification of cotton made by Government classers. It would relieve the exchange of a great responsibility. The exchange now has to guarantee the buyer of every hundred bales of cotton that the grade of the cotton when delivered to him is correct.

The CHAIRMAN. Would you be willing, Mr. Marsh, that the conclusions of these Government classifiers should be *prima facie* evidence in the court of the correctness of their grading?

Mr. MARSH. I do not see how they should be other than that, Mr. Chairman. I should interpose no objection to that. In fact, my mind is of such a character that I follow the logic of a thing through, and the logic of the thing is that you are going to take this out of the hands of the merchant. Heretofore when there has been a controversy between the buyer and the seller of cotton they have gone to somebody outside of themselves, some disinterested people in the trade, to arbitrate it. That has been the regular way of doing it. The buyer has appointed an arbitrator to represent his interests and the seller has appointed an arbitrator to represent his interests, and the two arbitrators have selected another—an umpire, so to speak—entirely disinterested and disconnected with the whole transaction, and the three arbitrators have had to determine as between the buyer and the seller.

Mr. HEFLIN. Who determines that now on the New York Exchange?

Mr. MARSH. It is determined exactly in that way.

Mr. HEFLIN. If there is any dispute between the the buyer and the seller?

Mr. MARSH. I should correct that. When there is dispute as to grade. Of course there can be no dispute as to grade at present, because the classification committee itself determines the grade, though there is in the classification committee an appeal from the original class. In the classification committee two members of the committee pass on the samples in the first instance. If the classification which they render is not satisfactory to the holder of the cotton he appeals, and the matter is then taken up by three members of the classification committee, who decide whether the original class was right or not. Now, there is a further step. If the receiver of that cotton is not satisfied he in his turn can appeal to the classification committee. The whole matter is gone over again, and if the classification committee determines that a mistake has been made they make that mistake good to the receiver of the cotton in dollars and cents.

That is the process to-day.

Mr. HEFLIN. If they sustain the action of their committee and this man is still dissatisfied, that is the end of it?

Mr. MARSH. That is the end of it.

Mr. MAGUIRE. In this Government court which was mentioned, you would not contemplate in any way a judicial court of review, would you?

Mr. MARSH. It would be in the nature of a court of review.

Mr. MAGUIRE. I mean of the Government authority had passed upon it.

Mr. MARSH. No.

The CHAIRMAN. You would make that final?

Mr. MARSH. Certainly.

Mr. MAGUIRE. That would be final?

Mr. MARSH. Certainly.

Mr. HUMPHREYS of Mississippi. Mr. Marsh, if this bill does not provide for Government classifiers, would you still say that the logic of this legislation would call for a Government board or court, as Mr. Heflin expressed it?

Mr. MARSH. Mr. Humphreys, I am naturally prejudiced against mixed packs, against having two different things mixed up in the same package. I do not believe that any human institution ever works well having the Government doing a part of it and somebody else doing the rest of it, or having somebody else doing the first part of it and the Government then stepping in to finish it up. It seems to me you want a straight bale of cotton, so to speak—a uniform bale of cotton. You want to have either the responsibility assumed by the Government and the whole thing taken by the Government on its shoulders, or you want to leave it with the merchant. I do not see any middle course.

Mr. HUMPHREYS of Mississippi. You think, then, that even if the classifying is to continue to be done by the agencies provided by the several exchanges, that in view of the fact that the Government has enumerated the different grades of cotton that are not deliverable, therefore the Government itself ought to provide some arbitrators to decide whether or not these cottons measure up to that prescribed standard?

Mr. MARSH. Yes, sir; and I think, Mr. Humphreys, in that connection, that the legislation necessarily ought to extend far beyond the cotton exchanges. It ought to extend to the spinners just as well as to the cotton exchanges; and, in fact, a good deal of this proposed legislation ought to be extended so as to include the cotton manufacturers in it.

Mr. HUMPHREYS of Mississippi. Well, I do not know what that means.

Mr. MARSH. There is no inherent difference, Mr. Humphreys, in the character of the transaction, whether you sell 100 bales of cotton for delivery in New York on a cotton-exchange contract or sell it to Mr. Parker for delivery at Greenville, S. C., on a mill contract, is there?

Mr. HAWLEY. Do you believe in Federal inspection on grading all along the line?

Mr. MARSH. Yes; that is the only logical conclusion. You are taking it out of the hands of the merchant.

Mr. HUMPHREYS of Mississippi. I am not myself qualified to answer these questions very much; but to me it appears that there is a very material difference between the two cases, because if a producer

makes a contract to sell cotton to the mill man, that contract is certainly for a specific grade.

Mr. MARSH. Yes; but at the present time that contract allows some give and take in the cotton delivered; but if we are going—

Mr. HUMPHREYS of Mississippi (interposing). The contract on the cotton exchange is for basis middling.

Mr. MARSH. Yes.

Mr. HUMPHREYS of Mississippi. Now, I may be entirely wrong about this, and I would not like to put my opinion against yours and that of others who have made statements on the subject, and who are more expert than I am, but it seems to me that there is a very material difference there.

Mr. MARSH. I confess that I can not see it, Mr. Humphreys.

Mr. HUMPHREYS of Mississippi. Well, you may be right and I may be wrong.

The CHAIRMAN. It seems to me that the difference is that your contract on the cotton exchange is for basis middling, under which, under the terms of the bill, you would deliver any one of the eight or nine grades; whereas when a mill man buys 100 bales from a farmer for delivery at a future time, the contract specifies a particular grade to be delivered.

Mr. MARSH. Mr. Chairman, I suppose that three-fourths of all the contracts made by southern manufacturers are basis contracts.

The CHAIRMAN. Made with the farmers?

Mr. MARSH. The contracts made with the local cotton merchants.

The CHAIRMAN. The contracts made with the local merchants are basis contracts?

Mr. MARSH. Yes; they are not basis contracts, of course, with anything like as wide a delivery range as cotton exchange contracts.

The CHAIRMAN. Well, that is the difference that Mr. Humphreys and I are speaking of.

Mr. HUMPHREYS of Mississippi. You see the case is this: Here is the great economic agency that is employed by all those that are engaged in the cotton business—I mean the exchanges. It might therefore be desirable that the Government regulate the transactions on those exchanges, where it would be entirely undesirable for the Government to undertake to interfere in the least with private contracts, for the purchase and sales of cotton between private individuals.

Mr. MARSH. That is entirely possible, Mr. Humphreys, and I do not mean to deny that it is possible. I will say this again, however, that the logic of this legislation is such that, before Congress gets through with it—not this Congress, necessarily, but before this or succeeding Congresses get through with it—if you proceed along this line, you are going to be forced to take in all spinners' contracts, all contracts between merchants and spinners for cotton made in this country. You can not draw the line, and you can not stop yourselves; the thing will drive you on.

The CHAIRMAN. Well, Mr. Marsh, I think those who are responsible for this bill have answered the very suggestion that you are making, by the introduction of the grading proposition. We see, of course, the logic of the situation. We are taking up this bill before the grading bill is taken up, because it seems to be at this moment a more pressing necessity. It is going to be necessary—and

I take it that these southern gentlemen will agree with me about that—to educate the people of the South to grading and inspection. That subject has never been discussed in the South to any extent. I have discussed it, in my own State, for the past two years. I believe that I am possibly the only man who has discussed it there.

Mr. HEFLIN. And that is why it is important to work on it now, so that they will understand it when the next crop gets on the market.

The CHAIRMAN. I think you are right. I think the whole logic of the situation is for Congress to do what Mr. Haugen has in mind with regard to grading and inspection.

Mr. HAUGEN. I do not feel like "butting in," Mr. Chairman, at all, on this question, as I know little about the grading and inspection of cotton; I think that the people who are familiar with that subject should decide as to that. But I am very much interested in the grading and inspection of grain; and when it comes to Government inspection of grading, I think it applies just as much to one commodity as it does to another.

The CHAIRMAN. Exactly.

Mr. HAUGEN. And the contention is this, that the cotton or the grain merchant ship to the terminal and sell his grade. The question is, Who shall determine what that grade is? Is it to be determined by the commission man or by some one whom he has influence over, or are we going to have some Federal authority to determine the grade of that particular article, whether it be grain or cotton? I think there is some misunderstanding on this subject. The general belief seems to be that it will be necessary to place the Government inspector at every gin or farm in the United States.

The CHAIRMAN. Of course that is not necessary.

Mr. HAUGEN. No. The shipper ships his cotton to the terminal, and we will provide the inspectors at the terminal, and if there is any question between the merchants and the farmers, that question can be determined at the terminal.

The CHAIRMAN. I would like to say, Mr. Haugen, that there is so much sentiment in the West, and so much information gathered there with respect to the grading and inspection, that there are pretty well developed lines of thought on the subject; and I will say to you that I am going to listen with great interest to the discussion on the grain grading and inspection there next week before this committee, in order to make up my mind more fully on the cotton grading proposition, which we hope to bring up in the future.

Mr. HAUGEN. Well, I am glad to have Mr. Marsh's opinion on the subject of cotton grading.

The CHAIRMAN. Yes; we are very glad to hear him.

Mr. HAUGEN. The fact is that a number of farmers' exchanges have expressed themselves in favor of the grading and inspection, and a number have been opposed to it, and I think it is a good thing for us to have the opinion of the exchanges.

Mr. MOSS. I think Mr. Marsh should also give his opinion as to whether, if the Government itself establishes the standard or grade but does not itself appoint the graders, the grading is going to be affected. I think I catch Mr. Haugen's thought, either as to cotton or as to grain, it is the thought that if the Government establishes the grade, and yet leaves the exchanges to try it out, it will not be effective.



The CHAIRMAN. I think we all have that idea correctly.

Mr. MARSH. May I answer the two questions together? With regard to Mr. Haugen's question with regard to the grading bill, it is my belief, and the belief of the members of the New York Cotton Exchange who have given the matter attention, that the grading bill is absolutely indispensable in connection with the cotton exchange bill and should be amalgamated with it, and that unless the grading bill is passed as a substantial part of the same legislation, there is going to be such confusion, such irritation, and such animosity aroused by what will happen as a result of the application of this House bill regulating cotton exchanges, that we shall all be up in the air and in a turmoil for the next—I do not know how many years. That the two bills ought to be amalgamated right at the start, and unless you do amalgamate them right at the start you are going to plunge the whole cotton industry into confusion; and we believe that you would run the risk of starting movements, the nature of which you can not foresee, and that nobody can foresee.

Mr. HEFLIN. Do you mean the Smith bill, the Senate bill, or the Lever bill?

Mr. MARSH. No, sir; I mean the two Lever bills; the one dealing with cotton exchanges, House bill 15318, and the bill providing for the enforcement of the standard of cotton—H. R. 14492. Those two bills, we think, ought to be combined.

Mr. HEFLIN. Now, Mr. Marsh, right there—

Mr. MARSH. Excuse me a moment; let me finish my thought. With regard to the effectiveness of this grading I will say that for the first few years—probably 10 years—the grading will be very uneven, will be very unsatisfactory, and will give rise to a great deal of trouble.

I can not better illustrate that than by calling attention to what has happened in the Department of Agriculture with regard to the standard grades of cotton. The standard types, or boxes of grade, which are now being produced in the Department of Agriculture, in the judgment of men like Mr. Millett, the man upon whom we rely the most for the quality of cotton; according to Mr. Cairns, who has had 30 years of experience in Liverpool, in the South, and in New York, in the handling of cotton and is one of the best judges of cotton in the world; according to the judgment of those men, the standard types now being turned out by the Department of Agriculture are as good as human skill can produce. They said so yesterday. They went over there yesterday; they examined them yesterday and said last night to the president of the New York Cotton Exchange and myself that human skill could not produce anything better.

The CHAIRMAN. We are very glad to have you make that statement, Mr. Marsh.

Mr. MARSH. But it is now four years since the first Government standard types were prepared, and it has taken those four years for the Department of Agriculture to learn the trick. We have got in our possession—in the possession of the New York Cotton Exchange—sets of Government standard types of cotton which are sold at variance with each other; that the value of cotton delivered on some of the types would vary \$5 a bale. In Boston at this moment the Cotton Brokers' Association has a set of Government types forwarded from Washington, and a large cotton firm has another set

forwarded from Washington two years ago, and the two types are no more alike than a duck is like a goose.

Now, the moral of that is not that the Department of Agriculture is inefficient, or that it is not doing its duty, or is not to be depended upon. The moral of that is that this is a business which takes years to become efficient in. It has taken them four years to get efficiency, and they have got it. It is now agreed, by the best judges of cotton that I know of on the face of this earth that they have got efficient; they have got it, but it has taken them four years to get it.

Now, you speak about the efficiency of Government classers of cotton, or classers of cotton all over the South. In the Department of Agriculture you are dealing with a small number of trained men—men of unusual ability; and it has taken them four years.

Something was said about Government inspection of cotton throughout the entire South. It is going to require a staff of at least 6,000 classers, even on the basis of Mr. Haugen's statement that the cotton is to be classed at the terminal points, and not at every gin. Of course, if you have it classed at all the gins throughout the South, it will take 27,000 classers, because there are 27,000 gins.

MR. HAUGEN. How many terminals did you say there were?

MR. MARSH. At least 6,000.

THE CHAIRMAN. What do you mean by a "terminal"?

MR. MARSH. I mean the point at which the cotton is concentrated from the gins. Those are, in the cotton trade, terminal points, because it is from those points that the cotton starts on its journey to Europe, or to New England, or to the southern mills, or to Japan, or wherever the cotton may be going. The cotton is never looked at after it leaves one of those concentration points until it reaches its destination.

THE CHAIRMAN. Are those the points that you call the primary markets?

MR. MARSH. They are not necessarily primary markets at all. They are the points at which the compresses are located.

THE CHAIRMAN. What is a primary market?

MR. MARSH. The primary market is the point at which the farmer sells his cotton.

THE CHAIRMAN. The first one?

MR. MARSH. Yes.

MR. YOUNG. Could not this grading proposition be handled at the compress points alone—I do not know how it is in other States, but take it in our State, the cotton goes first to the compress.

MR. HAUGEN. How many of these terminals did you say there were in cotton?

MR. MARSH. I do not know exactly, but there are at least 6,000.

MR. HAUGEN. Well, it would not be necessary to put an inspector at every one of them. In the first place, the Senate bill provides for putting them at about a dozen places—

MR. MARSH. Mr. Haugen, cotton is leaving every one of these points never to be touched or looked at again until it reaches its destination in Europe, or in New England, or in Japan, or in Bombay. How are you going to get at it?

MR. HEFLIN. I did not understand Mr. Haugen to mean that the Government would have to have classifiers all over the South, four or five thousand of them: it would only be in case there was a dis-

pute as to what the grade is that they would be called upon. There are 1,000 cotton classifiers in the South who can say, "This is middling cotton, or this is strict middling, etc;" but, as I understand, Mr. Haugen's idea, it was to have some Government board to settle disputes.

Mr. HAUGEN. The Government has no authority to deal with intrastate contracts; it would deal with contracts that enter interstate commerce. You may have only a dozen places, and that, of course, would be left to the Secretary of Agriculture to determine as to the number of places and the number of inspectors required. That is my idea; I may be mistaken.

Mr. MARSH. Well, approximately only 10 per cent of the cotton would be accessible to the inspectors under those conditions.

Mr. HAUGEN. But it is up to the States to look after their own interests and make their own inspections.

Mr. HUMPHREYS of Mississippi. May I ask this question? Even granting that the Government supplied a competent inspector and put him at every compress in the country, would that answer the purpose that Mr. Callaway suggested here the other day? To make myself clearer, one of his objections was that every man that came along could cut out a pound or 2 pounds from the bale, and so on. After a bale is compressed no samples are cut out of it.

Mr. MARSH. Oh, yes; indeed it is.

Mr. HUMPHREYS of Mississippi. After the bale is compressed?

Mr. MARSH. Certainly. Every time the bale is sold a sample is taken out of it.

Mr. HUMPHREYS of Mississippi. I understood that after it was compressed it was then shipped off to the ultimate market.

Mr. MARSH. It may be compressed and not be shipped to the ultimate market for months.

Mr. HUMPHREYS of Mississippi. I may be mistaken, but I do not think that is the general rule in my State. The cotton is sampled, and the sample is taken to the brokers—the buyers' office—and the bale of cotton is compressed afterwards as a general rule.

Mr. MARSH. Mr. Humphreys, I know of approximately 80,000 bales in a single warehouse in Houston, Tex., to-day, and I suppose every bale of it is compressed. It is in storage there. It was compressed because storage was saved by compressing it. Now, of course, it is true that the great bulk of the cotton crop—70 or 75 or 80 per cent of the crop—moved forward in the active shipping season, and it is going, probably, as fast as it is compressed, on through bills of lading to its destination. But you are dealing with such an immense affair, so many million upon millions of bales, that even if 75 per cent of the crop does that, you still have got from 4,000,000 to 5,000,000 bales left that do not do it.

The CHAIRMAN. Mr. Marsh, how many primary markets are there in the United States for cotton? Have you any idea?

Mr. MARSH. Well, there are at least 27,000. Wherever there is a gin plant there is a primary market.

The CHAIRMAN. At least 27,000; all right. Mr. Marsh, if you will pardon me, Mr. Rice says that he must catch a train for New York, and that he would like to make a statement of not over five minutes, after which we will hear you further.

Mr. RICE. I do not want that much time. All I desire to say is this: I am neither an economist nor a logician like Mr. Marsh, nor a mathematician like Mr. Hill. But I am one of the men who has been working for a good long time and working very hard in an effort to get into the by-laws of the New York Cotton Exchange a contract that would meet the sentiment of the Government at Washington, as far as we could ascertain what that sentiment was.

We are now working on a new contract to be put into effect as soon as we can do so. For that reason, I am personally very anxious to have some legislation adopted that will permit us to go ahead and complete that work. In my own opinion there are only two real questions that cause trouble about the New York cotton market.

One is the question of standards, and the other is the question of the method of fixing conditions.

Our standards have been too low; there is not any question about that, in my opinion, though other gentlemen here do not agree with me as to that.

The fixed-difference method I do not believe in. But with the removal of those two troubles you have cured practically every defect that you are aiming to cure on the New York Cotton Exchange.

The Department of Agriculture should, by all means, fix the differences and should be unrestricted in its methods of obtaining information for that purpose.

That is all I desire to say, Mr. Chairman.

The CHAIRMAN. In other words, you are in line with the general tenor of these regulatory bills?

Mr. RICE. Yes, sir. I forgot to say that I think that seven-eighth-inch minimum staple is too restrictive.

The CHAIRMAN. What would you suggest?

Mr. RICE. I would suggest a compromise and make it three-fourths inch staple and stop there.

The CHAIRMAN. All right; we thank you for your statement.

Mr. YOUNG. Mr. Marsh, you have made some reference as to an investigation as to the cost to the farmer of growing a pound of cotton on the farm. I would like you to tell the committee the conclusion which you reached as a result of that investigation.

Mr. MARSH. The conclusion I reached is that the cost on the farm is approximately  $10\frac{1}{4}$  cents per pound, which means, on the average, at least approximately  $10\frac{1}{8}$  cents per pound at the ports.

Mr. YOUNG. Yes; I desired that simply as a matter of information. (Thereupon, at 12:30 o'clock p. m., the committee took a recess until 2 o'clock p. m.)

#### AFTER RECESS.

The committee reassembled, pursuant to the taking of recess.

#### STATEMENT OF MR. ARTHUR R. MARSH—Continued.

Mr. MARSH. Mr. Chairman, I want to ask permission to place in the record, without reading them and taking the time of the committee, the letters which we have received from various cotton exchanges in the South relative to the manner in which they actually

do fix differences. I think the information contained in these letters will be useful to the committee and will serve as justification for some of the statements I have made; but it would be, I think, a waste of time to read the letters in full.

They cover practically all of the markets that would be likely to be chosen or picked by the Secretary of Agriculture as markets to be used for fixing differences.

The CHAIRMAN. Without objection, they will be inserted in the record.

(The papers above referred to will be found at the conclusion of Mr. Marsh's statement.)

The CHAIRMAN (continuing). Mr. Marsh, you may proceed in your own way, keeping in mind we are pressed for time this afternoon.

Mr. MARSH. Yes. I want, first, to speak very briefly a little further on the subject of Government standard grades. At present, with the exception of New Orleans—and there for contract delivery purposes only—no southern cotton exchange is using actually the standard Government grades. Several of them have adopted them, but none are actually using them, and it was explained at the conference with the Secretary of Agriculture some months ago by the representatives of these southern exchanges that it was not possible for them to use them because they did not cover all the varieties of cotton which had to be dealt with in those markets. I have here, for instance, a letter from the Savannah Cotton Exchange in which is the statement, so far as the United States Government standards are concerned, "they are made up from the type of cotton that is not produced in this section." Now, I think that is an overstrong statement, but it is unquestionably the case that the Government types, standard types, as they exist to-day do not represent the varieties of cotton that have to be dealt with practically by the cotton trade. The practical adoption of these standard types by the southern exchanges is obviously an essential prerequisite to the fixing of the differences in those markets. If the Memphis Exchange is not using the Government standard types in practice in that market, it is virtually impossible to get differences by the Memphis Exchange on transactions in spot cotton in Memphis which will reflect differences based on the Government types.

That is also true, of course, in Charleston and Savannah, and in fact in all of the markets.

Now, we feel that there should be an enlargement of the Government types of such a character as to make them representative of the various cottons which are practically dealt in in all the important spot markets of the South, so that those markets will use them practically—and not adopt them formally and then not put them into practical use, but adopt them practically.

Mr. HAWLEY. What specific changes would you suggest in the Government grades?

Mr. MARSH. The upland cottons, as is indicated by this letter from the president of the Savannah Exchange, have been in the older sets of Government standard types very inadequately represented. There are cottons produced to the extent of millions of bales in the Atlantic States which really, under the statutory requirement that

the Government types should be followed, would have to be excluded from delivery on contract. For instance, there is produced, in many seasons in the Atlantic States a character of cotton known as blue cotton, or blue-gray cotton, which, so far as the mere trash, leaf, and so on, contained in the cotton is concerned, may be matched up against the Government types, but which, on the color and character of the cotton, would be thrown out from delivery on the ground that it does not match the types. Mark you, in the New York Cotton Exchange to-day and in the New Orleans Cotton Exchange to-day where we are proceeding not under statutory requirements but on the custom of the trade, we can deal with those cottons. We do deal with them. We have not in the New York Cotton Exchange any type of upland blue cotton. We adjust the value against the white types. And that is the custom of the trade which we are following now, but you are going to substitute for the custom of the trade a statute and you are going to put the thing in such a position that we have got to do this work rigidly.

Mr. HAWLEY. Supposing a statute is to be adopted, what would you suggest should go into the statute?

Mr. MARSH. I should suggest that the Secretary of Agriculture be instructed and authorized to inquire as to the substantial varieties of cotton grown all over the South and make such provision in them for the standard types as in his opinion will make the standard types representative of the cottons that actually are produced.

Mr. JACOWAY. You want flexibility, as opposed to what you term rigidity?

Mr. MARSH. I want flexibility, and I am quite willing to leave to the Department of Agriculture that the Department of Agriculture be simply given authority and be directed to make an inquiry itself as to the different varieties of importance, and proper types in such manner that those cottons will be represented.

Mr. JACOWAY. And you said something yesterday regarding a rigid statutory regulation, and that when you crossed the danger line certain results will follow.

Mr. MARSH. Yes.

Mr. JACOWAY. As I gathered from your argument yesterday, that result would be detrimental to the trade as you view it now?

Mr. MARSH. Yes; that would be detrimental to the trade and detrimental to the producers of cotton.

Mr. HAWLEY. Mr. Marsh, do you think there should be a set of types of upland cotton and a separate set of standard types of gulf cotton?

Mr. MARSH. That has been my opinion, Mr. Hawley, although as a practical cotton man I can see the possibility of adjusting the matter without absolutely making different sets of types.

Mr. HAWLEY. By following the suggestion you made a moment ago, by giving the discretion to the Secretary of Agriculture?

Mr. MARSH. By giving the discretion to the Secretary of Agriculture to make up such types as he finds, after an investigation of the varieties of cotton that actually have to be dealt with by the trade will facilitate the classifying of that cotton according to or on the basis of the Government standard types. I am simply trying to suggest that the legislation should not put the whole trade into a hole, should not leave us where, dealing with specific pro-

visions of a statute, we are robbed of the elasticity of our present system and so, consequently, cut off from dealing at all with a considerable quantity of cotton out of each crop.

To illustrate still further what I mean, suppose Col. Thompson wants to take up 200,000 bales of cotton in contracts on New York. Suppose the Government standard types are such as they now are, without representation of these other varieties. If anybody were to deliver to Col. Thompson any varieties that did not exactly match up against the Government types I believe Col. Thompson could go into court and compel the deliverer to take back what he had delivered, paying a penalty, such penalty as might be established for default in the by-laws of the exchange, and substitute cotton that exactly matched the Government types.

Mr. HAWLEY. If such a condition prevailed, would contracts be made? Wouldn't it induce a man not to make contracts?

Mr. MARSH. In my opinion it would be likely so to reduce the use of the American cotton exchanges as to throw the business virtually all into the foreign markets.

Mr. JACOWAY. Mr. Marsh, from your testimony and the testimony of others, so far as I can gather it, it would be a physical and mental impossibility to make a lot of cotton grade up exactly with these Government types that are sought to be established here, would it not?

Mr. MARSH. In a sense that is true, sir.

Mr. JACOWAY. That is what I mean.

Mr. MARSH. In a sense that is true, but in another sense it is not quite true. It is a fact in the cotton business, that exact matching is extremely difficult, but I presume the custom of the trade would still obtain in a legal proceeding, would be upheld in a legal proceeding, that if you give a man something a little better than what the letter of the contract calls for, he has no remedy.

Mr. JACOWAY. Couldn't it all be adjusted and adjudicated on the proposition of differences, fixed differences? That is the way I get the testimony here. I do not know whether I understand it.

Mr. MARSH. But you are going to substitute these commercial differences for the fixed differences. On that point I should like to say, further, that I believe the greatest help toward getting the foreign cotton trade to adopt the United States Government's standards immediately and without demurrer, would be to make those standards representative of the different varieties of cotton produced in the South and which foreign markets take. At present it is an obstacle, and a very serious obstacle, in the way of the foreign markets adopting the United States standards, that the exporters of cotton in this country and the importers of cotton on the other side of the water perceive at a glance that a great deal of the cotton which they are buying and handling does not conform to the exact government standards. Now, it seems to me that the Secretary of Agriculture, could, without any great disturbance to anybody, inquire as to the varieties of cotton that ought properly to be represented by the standards and make the standards such that all the important varieties of cotton could be classed against them.

Mr. HARRISON of Mississippi. You think it would be very good if the United States and all of these other countries could come to some

understanding, where all the classes would be alike on the exchange and all the standards would be uniform?

Mr. MARSH. Mr. Harrison, it would be one of the greatest things that could possibly happen. It would be an enormous step forward, economically speaking. It would save losses, whose aggregate nobody knows. It would save confusion, disputes, and litigation. It would save all kinds of wastages which are now occurring.

Mr. HARRISON of Mississippi. Have you any suggestion to offer as to how that could be done?

Mr. MARSH. I have just offered a suggestion which seems to me to be sufficient to meet the case.

Mr. HARRISON of Mississippi. How would you go about that? That is going to be a matter which the business men take up as a practice here; but how would you go about getting the foreign countries to take up the standards and practices that this Government has?

Mr. MARSH. I do not think it is necessary to go about it through the Department of State. It seems to me almost certain that if the United States standard types are put into compulsory use in the interstate commerce of this country, if the southern cotton exchanges which represent spot markets are brought to use these standard types practically so that the entire commerce in cotton in the United States is on this basis, you will find that automatically and without resistance the Liverpool Exchange and the Bremen Exchange and the Havre Exchange will adopt those, because it will be so greatly to their business advantage to do so.

Mr. JACOWAY. Mr. Marsh, don't they actually have to have 10,000,000 bales of cotton, and would not they be forced, in a way, to comply with the regulations made here?

Mr. MARSH. "Forced" is perhaps a stronger word than I should feel like using—

Mr. JACOWAY. Commercially forced, I mean.

Mr. MARSH (continuing). But there is this force: There is the force of business advantage.

Mr. JACOWAY. That is what I mean.

Mr. MARSH. Yes, sir; in that sense I think they would be forced to it.

Mr. HARRISON of Mississippi. Mr. Marsh, this country has in the past where different ones wanted to go about getting a common understanding with respect to legislation, appointed commissioners and made laws that were uniform and wiped out the particular evil and regulated the practice. The point I wanted to ask you is this: Would you approve, if the committee think it wise and conclude that in this bill a provision should be written that the President of the United States should invite these countries wherein they have exchanges that deal in this future business, to appoint commissioners, one or more commissioners, to consult with a like number of commissioners appointed by this country, to get together and then report back to their respective Governments a uniform law respecting the regulations of these exchanges? Would you approve of that or not?

Mr. MARSH. I should approve of it in principle, although I fear I must say it would be ineffective.



Mr. HARRISON of Mississippi. You think it would be impracticable?

Mr. MARSH. I think, for instance, that the Government of Great Britain would refuse to participate in such a conference.

Mr. HARRISON of Mississippi. I might say that I have a bill before the Foreign Affairs Committee with that object in view.

Mr. MARSH. I have read it, Mr. Harrison.

That is all I have to say on that subject, Mr. Chairman.

The CHAIRMAN. Take up your next point, Mr. Marsh, please, sir.

Mr. MARSH. The only other matter I desire to speak of, very briefly, is that of pro forma bills and of the suggestion that trading in contracts should cease on the last day of the month before delivery is to be made. With regard to pro forma bills, the New York Cotton Exchange recognized in 1910 that there was an element of injustice to the receivers of cotton in having to wait long enough for the classification committee to catch up and to class every bale of cotton that was delivered. The result was the adoption of regulations by the New York exchange compelling the deliverer in every case to furnish the receiver with a sample on the day of delivery. Accordingly, as the matter now stands in New York, although the use of pro forma bills is permitted, the receiver of cotton has an actual sample of the cotton delivered to him and has this actual sample on the day he has to pay for the cotton.

The situation in New York in 1910 is worth speaking of for a moment, because if the Government sets about the classification of cotton it will run into the same difficulty under the same circumstances.

The New York Cotton Exchange has seven highly expert cotton classers, a number which is more than sufficient to take care of the normal flow of cotton through New York. In 1910, however, certain gentlemen, the testimony of several of whom you have heard, contracted for the delivery to themselves in New York of an amount of cotton three or four times as great as had ever before, I believe, in the history of the New York Cotton Exchange, been called for for delivery within a brief space of time. Now the New York Cotton Exchange did not have classers enough to class that cotton, coming into New York at the rate of 20,000 and 30,000 bales a day—to class it, I mean, instantaneously. The classing of the cotton necessarily spread over a considerable period of time and, more so, because the transportation companies made a perfectly awful mess of the cotton and got it all mixed up, and had it piled upon lighters and on the piers, and bales sent to the wrong stores, and all that kind of thing. It does not make any difference, however, whether it is the New York Cotton Exchange or the Government which is classing the cotton. If the Government is classing the cotton exactly the same thing will happen sometime. An unlooked for and absolutely abnormal situation will come about in which three or four times the amount of work has to be done that has ever before had to be done.

Now, in a situation of that kind, it is going to be just as impossible for the Government classers to class cotton within a day or two as it was for our classers, and if you cut off the use of the pro forma bills altogether, you are going to subject the shippers of cotton all over the South, whose cotton comes there too late, or is delivered by the

transportation companies too late, for the Government classers to get at it—you are going to subject those shippers to very severe losses.

Now, I want to call attention to another fact, and that is that the use of a pro forma bill is not confined to the cotton exchanges. The truth is that every shipment of cotton to the mill is accompanied by a pro forma bill. For example, Mr. Parker buys 1,000 bales of cotton from Mr. Webb. The cotton is to be strict middling cotton, and under the Carolina mill rules Mr. Webb has a leeway. He is not obliged to ship exactly strict middling cotton; he can ship half a grade up and half a grade down. The thing has to average strict middling. Now, how does Mr. Webb bill that cotton to Mr. Parker? He bills it to him on a pro forma bill.

The CHAIRMAN. In that connection, Mr. Marsh, what would you think of the suggestion of making the contract in these various exchanges an average middling contract? That is, so many bales delivered below middling and so many above middling?

Mr. MARSH. At the present moment, Mr. Lever—

The CHAIRMAN. I ask you that question because it had been asked me on the outside, and I wanted to get your judgment on it.

Mr. MARSH. You heard the testimony of Mr. Webb about the impossibility of getting any quantity of middling cotton at the present time. Now, if we had a contract of the character you describe, there would be only one thing for the New York Cotton Exchange to do, and that would be to shut up its doors until next September.

The CHAIRMAN. I beg your pardon?

Mr. MARSH. There would be only one thing for the New York Cotton Exchange and for the New Orleans Cotton Exchange to do, and that is to shut up their doors until next September.

The CHAIRMAN. I think I agree with you on the proposition.

Mr. HEFLIN. Why should they shut up?

Mr. MARSH. Trade in something that does not exist?

Mr. HEFLIN. From now until the middle of next September?

Mr. MARSH. From now until the middle of next September there won't be any cotton whatever which you could get for such a delivery.

Mr. HEFLIN. I understood Mr. Webb to say you could get middling cotton.

Mr. MARSH. Mr. Webb said he thought he could furnish Mr. Parker with 1,000 bales of middling cotton, although he would have great difficulty in securing it.

Mr. HEFLIN. Then Mr. Parker said he could furnish it to him from his own mills?

Mr. HAWLEY. He said he could furnish it to him from his own mills.

Mr. HEFLIN. He said he could get all you want.

Mr. MARSH. That phrase "all you want," Mr. Heflin, is a very dangerous phrase.

Mr. HEFLIN. I want to ask you a question right there. Let us say that your exchange would shut up and the New Orleans exchange would shut up: Then how would the price of cotton be fixed?

Mr. MARSH. Through the South?

Mr. HEFLIN. Yes.

Mr. MARSH. Why, it would be fixed by whatever a spinner was willing to give for what was left of the crop.

Mr. HEFLIN. In fixing it now in the early fall of the year, how do you get at what it ought to be before the opening up of the market?

Mr. MARSH. Of course the price is really fixed by the buyers and sellers in the market, by the coming together of the buyers and sellers in the market at a price. The minds of the buyers unquestionably during the crop moving season are of more importance than the minds of the sellers. In other words, the buyers have an advantage of position over the sellers necessarily during the period when most of the sellers are necessitous sellers. The minds of the buyers, however, are influenced as to the price at which they shall begin to buy cotton, by what the trade generally anticipates the supply to be likely to be; and in making up its mind as to what the supply is likely to be, the trade is very greatly influenced by the reports of the Department of Agriculture. If the reports of the Department of Agriculture for any reason turn out to be out of the way by any considerable amount of cotton, we have a violent readjustment immediately of the price of cotton.

We had it this year. For example, the September and October crop reports of the Department of Agriculture indicated a production of lint cotton this year, leaving out linters, of less than 13,000,000 bales. In September that had been the case. It was the case again in October. Now, everybody in the cotton trade knew that if the production of lint cotton amounted to less than 13,000,000 bales it meant a severe shortage of cotton and a severe advance in the price of cotton.

Mr. HEFLIN. Now, then, you consult, do you, on the exchange these various sources of information about cotton?

Mr. MARSH. We do.

Mr. HEFLIN. You now attempt to get the quantity or scarcity of cotton in the country, and so on?

Mr. MARSH. Yes.

Mr. HEFLIN. And then you guess at a price you think would be adequate in opening up the market season?

Mr. MARSH. Then every individual spinner in the world and every individual cotton merchant in the world forms each his own opinion.

Mr. HEFLIN. I know; but how do you get at the quotations you send out all over the South from New York?

Mr. MARSH. They are made by the buyers of cotton buying cotton at a price from the sellers of cotton.

Mr. HEFLIN. On the exchange, after consulting all these sources of information?

Mr. MARSH. Yes.

Mr. HEFLIN. Now, what would prevent the spot-cotton markets of the South from estimating that if you had no exchange? What would prevent them from getting at this statistical information about the consumption of cotton month by month, the movement of cotton in the foreign countries, and the prospects of the crop coming in? What would prevent them at New Orleans, for instance, Savannah, and the various other places, from getting this information and saying what they thought the price ought to be and sending their quotations to the market?

Mr. MARSH. There is nothing to prevent it, Mr. Hefflin, except lack of experience and the reduction of the size of the market.

The CHAIRMAN. I do not understand from Mr. Heflin's question that he means to convey the idea that members of the exchange get together, consult the buyers and sellers of cotton, and make up their minds as to what the value of cotton is on a certain day, and then post that as their quotation. As I understand the operation, the men who are dealing through the exchange consult these various sources of information and offer a bid on that information?

Mr. MARSH. On that basis.

The CHAIRMAN. And from that the quotations are made up. Is that correct or not?

Mr. MARSH. It is.

Mr. HAUGEN. The quotation is based on the buying and selling for that day?

The CHAIRMAN. Yes.

Mr. MARSH. That is correct.

Mr. HEFLIN. Mr. Marsh answered me correctly. There is buying and selling at all the market points. There must be a price the day the market opens. The day it does open somebody buys in the South—spot cotton I am talking about now. Mr. Marsh explained the market opened at 9 or 10 o'clock in the South. They wait for this message from New York, the quotation; they look at that—cotton is worth so much to-day. Now, what I am getting at—Mr. Marsh has answered me correctly—is how do you get your information that you base your quotations on in the opening of the season? If you base it on the information obtained from these statistical sources I have stated, and cotton men's opinions generally, what would prevent a spot-cotton exchange at Montgomery, Ala., and Atlanta, Ga., and Savannah, Ga., and Memphis, Tenn., and the exchange at New Orleans, in the cotton belt, from obtaining all this information and publishing it day by day?

Mr. HAUGEN. They could obtain it exactly as we do the stock-market quotations. Of course no quotations are sent out until there is an actual sale of the product, and they are based on the transactions of that day, just as you get your stock quotations, and get your wool and all other transactions?

Mr. MARSH. Of course, Mr. Heflin, it would follow from adopting that method that the Memphis exchange would conceive the value of cotton to be 10 cents a pound, and the Galveston exchange, where things looked very blue this last fall, would conceive the value to be 14 cents a pound, and the Charleston exchange would conceive it to be 12½ cents a pound. In other words, the trade of the world can not possibly converge in 10, 15, 25, or 30 separate markets. What makes the New Orleans exchange and New York exchange reflect the world's opinion as to the value of cotton is the fact that the trade of the world converges in those two markets. The number of buyers and sellers is so great that you get an average of opinion in those great markets that you could not possibly get in the multitude of small markets.

Mr. HEFLIN. Just following that up, one market you say would say 10, one 12½ and one 14. Then wouldn't you strike an average and would not the producer, in the absence of speculation, where no real cotton is contemplated to be delivered, then say he would not sell at this price, and he holds his cotton. There you have no specu-

lation on the exchange running the price down while he was refusing to offer on the market, and wouldn't that enable the producer to have a voice in fixing the price of cotton he does not now have?

Mr. MARSH. He now has a voice in fixing the price of cotton. Cotton has just advanced a cent and a half a pound because the producer had a voice in fixing it, because the producer would not sell unless he got an advance of a cent and a half a pound.

Mr. HAWLEY. Every man who refuses to sell becomes a bull on the market, does he not?

Mr. MARSH. Yes. Mr. Heflin, the whole point is that it is the consensus of opinion of the students of this whole subject that the larger you make your markets and the fewer you have of them the surer you are to have a world-wide consensus of opinion reflected in those markets that truly represents the value for the time being of the commodity. The more markets and the smaller markets you have the greater the inequalities and the greater the discrepancies, the greater opportunity for markets to get out of line and for the producers tributary to such markets as do get out of line to suffer disproportionately.

Mr. MAGUIRE. Isn't that true because you have tremendous power to fix market prices?

Mr. MARSH. We have no power at all, sir, to fix the market prices. We have not the slightest power to fix the market prices. The prices of contracts for future delivery in New York is absolutely fixed by the execution of the orders that come in there from all over the world.

Mr. HARRISON of Mississippi. Why does not that apply to wool, then, Mr. Marsh?

Mr. MARSH. In a way it does apply to wool, but the difficulty of wool is that the wool men after many years of effort have given up the attempt to get such uniformity of classification of wool that they are willing to establish a future market. Cotton is a commodity capable of absolutely uniform classification acceptable to everybody in the trade.

Mr. HARRISON of Mississippi. I understand by that that there is a future market for wool, is there?

Mr. MARSH. There is no future market for wool in this country, and there is no future market for all kinds of wool in the world. There is a future market for what are called wool tops in Antwerp, but the wool tops constitute only a fraction of the world's production of wool. The difficulties, however, with wool have always been that wool is sold in the grease, because every manufacturer has his own recipe for washing and scouring the wool, and they won't buy scoured wool. Now, you go into a wool warehouse in Boston and you will find wool piled up in the lofts there, great piles of it, twice as long as this room. One manufacturer comes in and he estimates that a given pile will scour 55 per cent; another man comes in and he says the same wool will scour only 50 per cent; another one says it won't go better than 45 per cent. Every wool manufacturer is up against the proposition that he has got to be guessing all the time and have lots of disappointments over the scoured wool he is going to get out of the piles of wool in the warehouse. Now, the wool man will not take the chance on a contract which implies uniformity of value. The result of that is that in the wool business you have no future market. You

have the wool men compelled to speculate, and therefore figuring on a 15 to 20 per cent margin between what they pay the producer of the wool and what they expect to get for the wool again they must employ in proportion to their turnover, employing four or five times as much capital as a cotton merchant makes on his, because this 15 per cent margin is really intended to take care of losses due to fluctuations of the market.

Mr. HARRISON of Mississippi. Don't you think the American Woolen Co. has done pretty well and prospered pretty well under those circumstances?

Mr. MARSH. I so understand.

Mr. HEFLIN. The hay business has prospered too, hasn't it, Mr. Marsh? We have no hay exchange.

Mr. MARSH. There is a kind of hay exchange in New York, but not a hay exchange on which contracts for future delivery are dealt in. But the amount of hay which enters into commerce. The hay produced in this country is in total value greater than the value of the cotton crop, but the amount of hay that goes into the commerce of the country, compared with the amount of cotton that goes into the commerce of the country, is infinitesimal.

Mr. HAUGEN. How about hogs, cattle, and all of those things?

Mr. MARSH. Those are all based upon hedging. The value of those is all based on hedging.

Mr. HAUGEN. They do not deal with hogs and cattle on the board of trade; they deal with pork.

Mr. MARSH. They deal with hog products; and the moment you get a product you can sell for future delivery and buy for future delivery, you can hedge on that out of which the product is made.

Mr. HAUGEN. You said awhile ago it was not within the power of the board to affect the market, it was not in the power of the board and is not being done. Now, suppose the gentlemen around the table here take a notion to speculate a little in cotton and each of them sells, say, 1,000,000 bales, or 10,000,000 bales are sold altogether when only 3,000,000 are available for delivery. The New York exchange holds a contract with these gentlemen here for 10,000,000, and all they can secure are 3,000,000. Is it not fair to assume the prices will go up in New York on cotton as they do on grain in Chicago when they will jump up from a dollar to \$2.30 in a case of that kind?

Mr. MARSH. If the case were a supposable one—

Mr. HAUGEN. Well, it is an actual case in Chicago that is of knowledge to everybody. I have heard something about New York, and my suspicions are harboring in New York at times.

Mr. MARSH. I suppose you refer to the Leiter corner, so called?

Mr. HAUGEN. Yes.

Mr. MARSH. I am not familiar with the details of that; but in all commerce it is a fundamental assumption that the men engaged in that branch of commerce have such experience in it that they will not assume risks beyond their capital.

Mr. HAUGEN. That is true, and it is these people out in the country, the clerks the chairman referred to down in South Carolina, and these people not on the inside. Of course the experts and those on the exchange have the knowledge an outsider has not, and the outsiders are the fellows who do it.

Mr. MARSH. Even with regard to those persons, Mr. Haugen, there is a check, namely, the check of the commission house that is making the engagements on the exchange, and these commission houses will not, if they can help it, and they can very largely help it, allow an inordinate interest to be taken in the market—that is, an interest greater than the resources of those trading would naturally justify them in taking.

Mr. HAUGEN. The general belief is that the market reports are sent out to encourage speculation in the country, and it often does encourage speculation in the country, and the country will either be short or be long, and these reports coming out influence them one way or the other. There is no question but that takes place and the market is interested in that way. It might be that the board of trade probably has more to do in affecting these markets than any other instrumentality they have.

Mr. MARSH. Of course I would not disagree with you in toto. I would not say that those market quotations do not affect people's minds. Of course it is obvious they do.

Mr. HAUGEN. Of course it is a question whether it is within the power of the board to affect the market.

Mr. MARSH. No, sir; I should say not. I have nothing further to say, Mr. Chairman, except that it has been suggested that trading in a given month should be stopped on the closing day of the preceding month and that deliveries contracted for for the given month should be made at the beginning of that month. I want to call the attention of the committee to the fact that this would simply push back a month the situation that we have now and that there would not be any gain to anybody in it except that the receiver of the cotton would get his cotton earlier and pay more storage charges on it.

Mr. HAUGEN. What is the time limit now for delivery? For instance, I hold a contract for so many bales for May delivery?

Mr. MARSH. You can deliver them on any day during the month of May, giving the buyer three days' notice of the day on which you are going to make the delivery.

Mr. HAUGEN. You have just one month to deliver in; is that it?

Mr. MARSH. One month.

Mr. HAUGEN. Our attention was called to the fact that more than one month had been taken. How was that brought about?

Mr. MARSH. Because of the classes not being available. The cotton was actually delivered within the month. Mr. Haugen, but the official classification of the exchange was not procured until after the expiration of the month.

Mr. HAUGEN. It was the classification that was held up and not the cotton delivery?

Mr. MARSH. The cotton was delivered.

The CHAIRMAN. Have you finished your general statement, Mr. Marsh?

Mr. MARSH. Yes.

The CHAIRMAN. You have confined your statement entirely to the House bill. I take it that the purpose of the House bill and Senate bill are so nearly alike your general statement would apply to both bills.

Mr. MARSH. Yes.

The CHAIRMAN. You do not care to discuss the Senate bill?

Mr. MARSH. No; beyond saying that I feel so doubtful about the constitutionality of the method of using the power over the mails I should sincerely hope that that question might not be raised. I have read through all of the decisions of the Supreme Court bearing upon the use of the mails and the power of Congress over the mails, and after reading them and after observing the reservations again and again made by the court as to the full extent of the power of Congress over the mails I feel doubtful about the constitutionality of the bill—Senate No. 110—if anybody wanted to raise the question.

Mr. JACOWAY. Mr. Marsh, in that connection I will state that one of the greatest constitutional lawyers in the United States has given it as his opinion that Congress could say red-headed men should not use the mails for this purpose and it would be constitutional for it to exclude the red-headed men from the use of the mails and carrying it that far.

Mr. MARSH. Of course, I am not a lawyer and I can not combat that. But I was struck that in the newspaper case of the Lewis Publishing Co. v. Burleson the court said in effect:

We do not desire to convey, even by the most remote implication, that we uphold the contentions of the Government with regard to the arbitrary use of the power of Congress over the mails.

Mr. HEFLIN. That was passing on a certain class of newspapers going through the mails and the contention was, as I understand that case, that the particular grade of paper was not covered by the authority granted the Government, but that the law says the mail shall not be used for the purpose of carrying out certain specific contracts and names the character of the contracts.

Mr. MARSH. The Supreme Court has held, Mr. Heflin, in a series of insurance cases and also in the case of Ware & Leland v. Mobile County, Ala., that inasmuch as insurance is not interstate commerce, and inasmuch as an insurance policy is a mere incident of insurance, the transmission of an insurance policy through the mails is not interstate commerce.

Mr. JACOWAY. Do they not put it on the ground that the contract is made where the contractor resides?

Mr. MARSH. No; they do not put it on that ground.

The CHAIRMAN. They put it on the ground that it is not commerce?

Mr. MARSH. Yes.

Mr. LEE. What per cent of the cotton exchange business is transacted by telegram?

Mr. MARSH. Nobody knows. But that does not make any difference, Mr. Lee, because in the case of Ware & Leland v. Mobile County, Ala., the Supreme Court held that all transactions on the cotton exchange and on the board of trade are intrastate transactions, even if the orders come from outside of the State.

Mr. HARRISON of Mississippi. That was a case, though, where a license fee was proposed to be charged Leland & Ware as agents of some concern in New York?

Mr. MARSH. Yes.

Mr. HARRISON of Mississippi. They went that far because the defense was made that it was intrastate commerce.

Mr. MARSH. Yes.



Mr. HARRISON of Mississippi. The courts have held, in the Ogden and McCullough cases, where Congress has held a thing to be intrastate commerce, that they have a broad discretion, and it shall be held to be interstate commerce. Is not that true?

Mr. MARSH. No, sir; that is not true. It is not true in regard to insurance. The Supreme Court has lately held that insurance is not a subject of interstate commerce, and if Congress were to pass an act to-morrow regulating insurance in this country the Supreme Court, in my opinion, would throw it out.

The CHAIRMAN. Is it not also true that the Supreme Court has held in a number of decisions, either directly or by inference, that Congress can not by creating a legislative fiat extend a judicial inquiry as to whether or not a thing is commerce in the usage of the world?

Mr. MARSH. That is true.

The CHAIRMAN. That is my opinion.

Mr. HEFLIN. Of course if you can regulate this so that cotton would be bought and sold, the cotton absolutely pass hands, that will be a commercial transaction. There would be no doubt whether that is commerce or not.

Mr. MARSH. But if the two persons making the contract are both residents in New York at the time they make it, it will not be interstate commerce.

Mr. HEFLIN. They do not grow any cotton in New York; they have to buy cotton down here and they resell it up there.

Mr. MARSH. We have not any iron or iron mills in New York, but a contract to build a skyscraper in New York is a purely intrastate contract, in spite of the fact that the iron has to come from Pennsylvania, the tiles have to come from Indiana, the bricks possibly from Connecticut, and the marble from Italy, and so on.

The CHAIRMAN. The Ware & Leland case holds that very proposition?

Mr. MARSH. It holds that very proposition; but, gentlemen, you are getting me in a hole here, because I am not a lawyer.

Mr. HEFLIN. If that is true in regard to cotton, you can operate a cotton exchange in New York and have it covered by the intrastate powers granted by the State of New York, and take the power out of the hands of the Government, when every lock of cotton is grown in some State in the South.

Mr. MARSH. In my opinion, Mr. Heflin—mind you, I spoke of this from the point of view of not desiring litigation. I hope the committee understands that in answer to Mr. Lever's question, I was simply saying I hoped the committee would not adopt legislation which opened a way for litigation.

Now, there is not any question whatever about the constitutional power of Congress to impose an excise tax upon contracts on the cotton exchange. That has been decided by the Supreme Court definitely, in the Chicago Board of Trade cases. In those cases the Supreme Court definitely decided that Congress may impose an excise tax upon transactions upon the exchanges, giving as its reason for the apparently discriminatory taxation that it was of advantage to the persons to trade on exchanges in these great markets.

Now, there you have a power of the Government about which there is not any possibility of litigation. That is all I am driving at, Mr. Chairman, that we shall not get into a mass of litigation.

Mr. HARRISON of Mississippi. You think, then, the Clark bill in the Sixty-second Congress was really constitutional?

Mr. MARSH. In my opinion the Clark bill was constitutional.

Mr. HARRISON of Mississippi. Mr. Chairman, I want to ask one question in connection with the bill I have before the committee. I do not know whether you have read my bill or not—

Mr. MARSH (interposing). I have read it.

Mr. HARRISON of Mississippi (continuing). But aside from the economic question, because we differ on that, I have a bill before the committee that deals with the exchanges' interstate commerce character, and proposing to abolish them, etc. I will ask you if you or your attorneys have looked into the constitutionality of that kind of legislation?

Mr. MARSH. I can not speak for the attorneys of the exchange.

Mr. HARRISON of Mississippi. I thought probably you had consulted with them in respect to different bills.

Mr. MARSH. I have consulted with more than one lawyer whose judgment of constitutional law has been proved more than once correct by the event. That is the only way I know of judging whether a lawyer is a good constitutional lawyer, to know whether he has foretold the line that the Supreme Court would take in all probability in regard to a case not yet decided.

Now, there is one man in New York, Mr. David H. Miller, who in my opinion has more nearly grasped the fundamental lines of thinking and the fundamental traditions of the court than any other man I have ever met, and I have talked with him a great deal about this, and we have read the cases together and discussed them together and we have reached the conclusion that under the interstate commerce powers of Congress effective legislation is virtually impossible because the Ware & Leland case, in our opinion, settles that once and for all.

The CHAIRMAN. Is not that confirmed by inference, at least, in the Patten case?

Mr. MARSH. In my opinion; yes.

The CHAIRMAN. Which is the latest case on the subject?

Mr. MARSH. Yes; that is the latest case on the subject.

Mr. HEFLIN. One other question. If by imposing an excise tax, which I think is entirely constitutional, upon transactions of the exchange that would drive out these contracts that we think are so injurious to the cotton producer, if it is constitutional to prevent the use of the mails for that purpose, would not that be the better plan; because in the other plan there is a tax imposed and the question is a mooted question as to who will pay the tax, as to whether it will be transferred to the farmer or not? If the mails can be used, if it is decided to be constitutional, would not that be the better plan, because there is no shadow of a tax to be imposed on the farmer?

Mr. MARSH. Of course, that is one of the things we can not decide until the matter has been brought before the Supreme Court for adjudication as to its constitutionality. Leaving that aside, however, I think the citizens of the United States generally are in favor of the use of the power over the mails by the Government in matters which are obviously fraudulent or what in the law are called mala in se; but I do not think the people of the country desire to see the

censorship of the Post Office Department over the mails extended by a hair's breadth beyond those matters which are universally recognized to be things evil in themselves and not merely mala prohibita.

Mr. HEFLIN. I think it was Mr. Hill, or one of the witnesses, who testified that some of these transactions were gambling transactions.

Mr. MARSH. I am not responsible for Mr. Hill's testimony, Mr. Heflin.

Mr. HEFLIN. We think that some of them are gambling transactions, Mr. Marsh. I do, at least, and if they are—if we can distinguish the gambling transactions from the legitimate contracts for the delivery of cotton—I think (and it is clear to my mind) that Congress has the power to brand that kind of contracts as unfit to use the mails and declare that the mails shall not be used for those purposes.

Mr. MARSH. Mr. Heflin, of course, nobody can tell until the thing is fought out in the Supreme Court. I candidly tell you that if the thing comes before the Supreme Court, the uniform testimony of all the students of economics will be produced to show that that only is gambling in which an unnecessary risk is assumed, and that a commercial speculation is in its very nature and essence not gambling, however foolish and reckless it may be. There is no divergence of opinion among the students of economics as to the distinction between speculation and gambling. It is gambling to assume an unnecessary risk that nobody need assume—as to whether a red card or a black card will be the next card that turns up. No human interest, no interest of society, no necessary risk is involved in that, and, if you bet on it, you are assuming a risk that you do not need to assume and that nobody need assume, and that is gambling.

But somebody has to carry the risk of the rise and fall of the price of cotton. If it is not carried by the speculator, pure and simple, it has got to be carried by the farmer, or it has got to be carried by the manufacturer, or it has got to be carried by the merchant. Now, a man who steps in there, call him reckless and foolish as you please, and says, "Here, I will take that risk and I will carry it for six months or one month, or a day, or an hour," that man is not a gambler.

Mr. HEFLIN. Nobody carries that risk in the hay business, in the mule business, and in the wool business?

Mr. MARSH. Oh, yes.

Mr. HEFLIN. Who carries it there? You do not have any exchange. Why should not the same people who deal in the spot cotton business carry it?

Mr. MARSH. They could if they had money enough in the business and could get the banks to back them.

The CHAIRMAN. Mr. Marsh, have you read the case of *Clews v. Jamieson*, in 182 United States, 461—

Mr. MARSH. I have read it.

The CHAIRMAN (continuing). In which the court holds that where a sale for future delivery is not on its face void, but a perfectly legal and valid contract, it must be shown by him who attacks it that it was not intended to deliver the article sold, and that nothing but the difference between the contract price and the market price was

to be paid by the parties to the contract; and further the court holds a contract on its face one of sale for future delivery being valid, the burden of proving that it is invalid, as being a mere cover for a settlement of differences, rests with the party making the assertion!

Mr. MARSH. I remember the case very well.

The CHAIRMAN. Does not this whole proposition, after all, narrow itself down to this point, as to whether or not this committee, endeavoring earnestly and sincerely to correct an evil which this committee has complained of for 10 years to my certain knowledge, shall rest its authority for doing that upon a well known and settled power under the Constitution, rather than upon two powers upon which the authorities, at least the decisions of the Supreme Court and the best legal authorities of the country, differ?

Mr. MARSH. Mr. Chairman, you could not more precisely state what is in my mind with regard to this matter, looked at from the point of view of the best thought and the opinion of the entire cotton industry, producing, manufacturing, distributing, and so on.

The CHAIRMAN. However much I might disagree with the economic theories of these gentlemen who presented their views here to the committee, I do not hesitate to say, and I am willing always to be governed by the will of my committee if it does not go against my own convictions of what is morally right, that if we are to legislate we ought to legislate upon a power which has been passed upon and fixed, rather than to legislate upon powers that have not been fixed by definite decisions of the Supreme Court, if we want legislation and not lawsuits. If we want to have this thing up in the air for the next 15 years, and in the meantime the farmers suffering the evils which we say they are suffering, whether rightly or wrongly is a question of judgment, then we had better take the risk of protecting ourselves against the charge, which I think can easily be defended, and impose a tax of one-twentieth of 1 cent a bale on cotton and have a law rather than have a lawsuit. That is my own judgment about it.

Mr. MARSH. I agree with you absolutely.

Mr. LEVER. But on that matter, of course, the committee will thrash out when they go into executive session.

Mr. HEFLIN. Of course if we hesitated to enact legislation because we thought it would be unconstitutional, we never would pass any law at all.

The CHAIRMAN. I do not think so. I think Congress usually acts upon pretty well established constitutional powers.

Mr. HEFLIN. We passed two bills which the chairman of the committee voted for and which I voted for, the Scott bill and the Beall bill, which had this very provision.

The CHAIRMAN. Oh, no; not at all. The gentleman does not know what was passed, if he says that.

Mr. HEFLIN. I am certain that they prevented the use of the mails, the telegraph, and the telephone; and I have them here and can refer to that in a moment.

Mr. LEVER. If my friend will permit me, the denial of the use of the mail in the old Scott bill was the denial of the mails to a class and not to individuals.

Mr. HEFLIN. That is the thing I am speaking of here; and what I am contending for is that Congress has the power to regulate the

mails and to say for what character of matter the mails shall be used in this country.

The CHAIRMAN. Nobody disputes that proposition, but I think you will find very grave differences among lawyers as to the proposition of whether or not Mr. Haugen, a white-haired man, shall use the mail or whether he shall not use the mail for any purpose, or whether I, a black-haired man, shall be singled out and denied the use of the mail.

Mr. HEFLIN. I think Congress has the power to say a specific person shall not use the mails for the purpose of selling cotton on the exchange—cotton he does not have and cotton he does not expect to deliver.

The CHAIRMAN. If you can find me a decision which points to that, I would be mighty glad to have you do so, because I would like to use the other power if we can.

We are very much obliged to you, Mr. Marsh.

(The letters offered by Mr. Marsh in his statement are as follows:)

SAVANNAH COTTON EXCHANGE,  
Savannah, Ga., April 9, 1914.

Mr. EDWARD K. CONE,  
President Cotton Exchange, New York, N. Y.

DEAR SIR: In reply to your letter of 7th instant, I am sending you attached hereto a statement giving the grade differences that have ruled in this market since September 1 last to date, with the date of each change. We did not quote tinges and stains officially until December 29. The differences of one-half off white for tinges and 1 cent off for stains as then established have prevailed ever since.

The differences of prices between grades are arrived at by a committee, which quotes twice a day, just before each call, over their signatures in a book specially provided for that purpose, and is based on transactions that have taken place. The members of the committee are men who are actively engaged in the selling of spot cotton.

In reply to your question as to the amount of cotton produced in this section that would be below  $\frac{3}{4}$ -inch staple, would say that the amount is negligible. So far as the United States Government standards are concerned, they are made up from a type of cotton that is not produced in this section.

Yours, very truly,

R. P. CANON,  
President Savannah Cotton Exchange.

#### DIFFERENCE BETWEEN GRADES SEPTEMBER 1 TO APRIL 9, 1913-14.

September 1 to 8, only good middling and middling quoted, with one-fourth cent difference.

September 9 to December 3, good middling, middling, and low middling quoted, with differences, viz:

September 9 to October 9, on and off middling. Good middling, one-fourth on; low middling, one-half off.

October 10 to October 22, good middling, three-eighths on; low middling, five-eighths off. October 22 to November 10, good middling, three-eighths on; low middling, one-half off.

November 11 to November 19, good middling, three-eighths on; low middling, five-eighths off. November 20 to December 3, good middling, one-half on; low middling, three-fourths off.

December 4 to December 8, good middling, one-half on; low middling, seven-eighths off; good ordinary,  $1\frac{1}{4}$  off; ordinary,  $2\frac{1}{2}$  off. Good ordinary and ordinary not quoted before December 4 because none received.

December 9 to December 27, good middling, five-eighths on; low middling, 1 cent off; good ordinary, 2 cents off; ordinary, 3 cents off.

December 28 to February 6, good middling, five-eighths on; low middling, 1 cent off; good ordinary, 2 cents off; ordinary,  $2\frac{1}{2}$  cents off.

February 7 to date, good middling, five-eighths on; low middling, 1 cent off; good ordinary, 2 cents off; ordinary, 3 cents off.

December 29 to date, tinges one-half cent off and stains 1 cent off corresponding white grades.

SAVANNAH, GA., April 9, 1914.

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THE CHARLESTON COTTON EXCHANGE,  
Charleston, S. C., April 15, 1914.

Mr. EDWARD K. CONE,

*President New York Cotton Exchange, New York, N. Y.*

DEAR SIR: Yours 7th instant was duly received. In reply, beg to say that on the 22d November, 1914, a committee of this exchange was appointed for the purpose of proper investigation of differences in values of the grades and to fix upon such differences as were established by the dealers in cotton in this market, which differences in values were based on actual transactions made here from November to March 1914, to wit: Differences on grades, fixed November 22, 1914: Good middling, one-half cent per pound above middling; strict middling, one-fourth cent per pound above middling; strict low middling, three-eighths cent per pound below middling; low middling, 1 cent per pound below middling; strict good ordinary, 1½ cents per pound below middling; good ordinary, 2½ cents per pound below middling.

In March the committee made the difference one-half cent per pound for strict low middling below middling and left the other differences the same as previously fixed. These differences were based on the classifications of this market, which do not compare with your classifications.

The grades of cotton that came here this season were particularly good, the lower grades being in very small quantity. The length of staple was from seven-eighths to 1 inch. The usual length of staple for cotton coming from points in this State will run about three-fourths to seven-eighths on low grades to seven-eighths to 1½ inches on the better grades.

Trusting the above information will give you what is desired,

Yours, very truly,

JAMES M. SEIGNIOUS, *President.*

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HOUSTON COTTON EXCHANGE AND BOARD OF TRADE,  
Houston, Tex., April 11, 1914.

Mr. EDWARD K. CONE,

*President Cotton Exchange, New York, N. Y.*

DEAR SIR: Replying to your letter April 7, addressed to the president, I am inclosing herewith official quotations for spot cotton in this market, beginning on September 2, 1913, and showing each revision that has been made by the quotation committee since that date to the present time on white cotton; also stained and tinged. As to the method of arriving at these quotations and differences I beg to quote article III of our by-laws:

"Sec. 2. Committee on quotations to consist of five. The chairman to be appointed by the president and to hold office for two months; not to be eligible for reappointment until the expiration of the following two months, and not to vote except in case of a tie; the other members to consist of two sellers and two buyers, one of each to retire at the end of each month and not to be eligible for reappointment until the expiration of the following month; the new members to be appointed by the president each month."

Also article VIII:

"Sec. 1. It shall be the duty of the quotation committee to furnish daily quotations of the different grades and half grades of cotton, white, tinged, and stained, ranging from middling fair to low ordinary; these quotations to be posted prominently in the exchange room."

The committee being composed of our most active buyers and factors, quotations and differences are made to the best of their ability, everything pertaining to the supply and demand, etc., being taken into consideration.

We have no official data as to the other questions asked.

Yours, very truly,

J. F. BURWELL, *Secretary.*

HOUSTON COTTON EXCHANGE AND BOARD OF TRADE,  
Houston, Tex., April 11, 1914.

Official report of cotton quotations.

	L.O.	O.	G.O.	S.G.O.	L.M.	S.L.M.	M.	S.M.	G.M.	S.G.M.	M. F.	
1913.	Cts.	Cts.	Cts.	Cts.	Cts.	Cts.	Cts.	Cts.	Cts.	Cts.	Cts.	
Sept. 1.....	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	
Sept. 2.....	8 $\frac{1}{2}$	9 $\frac{1}{2}$	10 $\frac{1}{2}$	11 $\frac{1}{2}$	11 $\frac{1}{2}$	12 $\frac{1}{2}$	12 $\frac{1}{2}$	13	13 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	
Sept. 20.....	9	10 $\frac{1}{2}$	11 $\frac{1}{2}$	11 $\frac{1}{2}$	12 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	Revised.
Oct. 20.....	7 $\frac{1}{2}$	8 $\frac{1}{2}$	10 $\frac{1}{2}$	11 $\frac{1}{2}$	12 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	Do.
Nov. 20.....	7 $\frac{1}{2}$	8 $\frac{1}{2}$	9 $\frac{1}{2}$	10 $\frac{1}{2}$	11 $\frac{1}{2}$	12 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	Do.
1914.												
Jan. 16.....	6 $\frac{1}{2}$	7 $\frac{1}{2}$	9	10 $\frac{1}{2}$	11 $\frac{1}{2}$	12 $\frac{1}{2}$	12 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	14 $\frac{1}{2}$	14 $\frac{1}{2}$	Do.
Jan. 17.....	6 $\frac{1}{2}$	7 $\frac{1}{2}$	9	10 $\frac{1}{2}$	11 $\frac{1}{2}$	12 $\frac{1}{2}$	12 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	14 $\frac{1}{2}$	Do.

<sup>1</sup> Holiday.

Stained, 1 cent off white; tinged, three-fourths cent off white.

J. F. BURWELL, *Secretary.*

GALVESTON COTTON EXCHANGE AND BOARD OF TRADE,  
Galveston, Tex., April 11, 1914.

Mr. EDWARD K. CONE,

*President New York Cotton Exchange, New York City, N. Y.*

DEAR SIR: Answering your letter of the 7th, beg to advise the following are the differences in grade, as revised in Galveston, on the dates given:

Date of revision.	L. O.	Ord.	G. O.	L. M.	Mid.	G. M.	M. F.
	Cents.	Cents.	Cents.	Cents.	Cents.	Cents.	Cents.
Sept. 2.....	8 $\frac{1}{2}$	9 $\frac{1}{2}$	10 $\frac{1}{2}$	11 $\frac{1}{2}$	12 $\frac{1}{2}$	13	13 $\frac{1}{2}$
Sept. 17.....	8 $\frac{1}{2}$	9 $\frac{1}{2}$	11 $\frac{1}{2}$	12 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	14 $\frac{1}{2}$
Oct. 20.....	9 $\frac{1}{2}$	10 $\frac{1}{2}$	11 $\frac{1}{2}$	12 $\frac{1}{2}$	14	14 $\frac{1}{2}$	15
Dec. 6.....	6 $\frac{1}{2}$	8	9 $\frac{1}{2}$	11 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	14 $\frac{1}{2}$
Jan. 21.....	6 $\frac{1}{2}$	7 $\frac{1}{2}$	9 $\frac{1}{2}$	11 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	14 $\frac{1}{2}$
Feb. 13.....	6 $\frac{1}{2}$	7 $\frac{1}{2}$	9 $\frac{1}{2}$	11 $\frac{1}{2}$	12 $\frac{1}{2}$	13 $\frac{1}{2}$	14 $\frac{1}{2}$
Mar. 18.....	6 $\frac{1}{2}$	7 $\frac{1}{2}$	9	11 $\frac{1}{2}$	12 $\frac{1}{2}$	13 $\frac{1}{2}$	14 $\frac{1}{2}$

By the above you will see that we started the season September 2 with the following differences:

Low middling, 1 cent off middling; and good middling, one-fourth on middling. Good ordinary, 2 $\frac{1}{2}$  off middling. Ordinary, 3 $\frac{1}{2}$  off middling. Low ordinary, 4 $\frac{1}{2}$  off middling.

Differences to-day: Low middling, 1 $\frac{1}{2}$  off middling; and good middling, 1 cent on middling. Good ordinary, 3 $\frac{1}{2}$  off middling. Ordinary, 5 $\frac{1}{2}$  off middling. Low ordinary, 6 $\frac{1}{2}$  off middling.

For your further information I beg to state that our quotation committee meets every day excepting holidays, discusses the market values of each grade, being guided largely by the supply of each grade, and makes quotations for good color and staple. They made no quotations for off-colored or irregular cotton, but the prevailing differences have been one-half off white for spotted to slightly tinged, and 1 cent off for full tinges to light stained.

I would consider that fully one-fourth of the cotton grown in Texas this season would not class on United States Government standards, and consider the amount of inferior staple cotton has been fully 10 per cent more than normal, calling 10 per cent normal.

In any normal year, or even in a drouthy season, we produce a very small quantity of cotton that will not go seven-eighths inch in staple.

Trusting the above information will be of some value, believe me,

Yours, very truly,

I. H. KEMPNER, *President.*

MOBILE COTTON EXCHANGE,  
Mobile, Ala., April 14, 1914.

EDWARD F. CONE,

*President New York Cotton Exchange, New York, N. Y.*

DEAR SIR: Your favor of the 7th instant is duly to hand and contents carefully noted.

Our quotation committee only quote five grades this season, and to-day they are quoted as follows: Good middling, 13½; middling, 12½; low middling, 11½; good ordinary, 10½; ordinary, 9½.

The half grades go at the split differences, while tinges sell at one-fourth to three-eighths off white; stains, one-half to five-eighths off white; and nappy and gin cut three-fourths to 2 cents off. Grades below ordinary are not quoted but are taken by buyers in private settlement.

Heretofore it has been customary in this market for factors when offering their lists for sale to class out even-running grades on their tables, fixing a price on each graded lot, and under such conditions it was quite simple for the quotation committees to post accurate differences. This season, however, conditions are entirely different, and all lots are sold in round lots at one price. The factors adopted this plan on account of the very wide range in grades and the wide differences that were existing, believing they could effect more satisfactory sales, and they are no doubt correct.

The principal buyers here are agents of large firms whose headquarters are in other cities, and these firms fix their differences for their agents; therefore I doubt if there are any two buyers here with the same differences.

It is equally as hard to quote accurately the basis grade—middling—as there are no even-running middling lots sold. One lot averaging middling in bales will sell at a different round price than another lot averaging middling in bales. The factor believes he sold his cotton on a certain basis for middling with differences according to his ideas, while the buyer has a contrary opinion, his differences not being the same.

Our quotations are established by a committee of five, composed of three factors and two buyers, and vice versa, changing each month. They meet each day after sales have been reported, and each committee man votes or expresses his opinion, and the chairman quotes according to the majority.

I have no way of arriving at what percentage of cotton produced in this section this season would fall short of United States Government standards, but I believe fully 15 per cent would fall short on future contracts. In a normal season very little, if any, cotton in our section would be below seven-eighths inch in staple. Even in a drought season would there be but a small percentage of staple under seven-eighths, as most of the cotton from this immediate territory comes from the river section.

I regret my inability to give you more satisfactory data, but I am glad to send you all we have.

Very truly, yours,

E. D. LEDYARD, *President.*

ALABAMA WAREHOUSE Co.,  
Montgomery, Ala., April 10, 1914.

NEW YORK COTTON EXCHANGE,  
New York, N. Y.

GENTLEMEN: Your letter of April 7, addressed to the Business Men's League of this city, has been turned over to us. Replying thereto beg to say that all cotton is sold in this market by the actual samples and in round lots ranging from strict good middling to strict good ordinary, but when there is a settlement necessary we use the differences that were last made by your exchange.

Yours, very truly,

ALABAMA WAREHOUSE Co.,  
Per T. L. SAMUEL.

HEARD BROS., COTTON FACTORS,  
Macon, Ga., April 15, 1914.

Mr. EDWARD K. CONE,

*President New York Cotton Exchange, New York, N. Y.*

DEAR SIR: Replying to your favor of the 7th instant we are giving below the differences that prevailed in this market from September 1, 1913, to April



1, 1914, taking good middlings as the basis grade, except on tinges and stains, in which case the corresponding white grade is taken as the basis, and the figures given indicate differences of the corresponding white grade.

	Fully middling.	Middling.	Fully low middling.	Low middling.	Tinges.	Stains.
	Cent.	Cent.	Cents.	Cents.	Cent.	Cents.
Sept. 1.....	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Oct. 1.....	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Nov. 1.....	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Dec. 1.....	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Jan. 1.....	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Feb. 1.....	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Mar. 1.....	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2
Apr. 1.....	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2

The above differences are based on Savannah quotations, which apply in this market as well as actual sales made in this market.

In regard to the amount of cotton produced in this section this season that would not fill all acceptance on the Government standards, because of trash or color, would say that we do not believe more than 5 per cent of last season's production would come in this class in this immediate territory on account of the unusually favorable weather conditions that prevailed during the picking season.

Relative to proportion of cotton produced in this section below seven-eighths-inch staple, in a normal season we should say 35 to 40 per cent; in a drouth season, 75 to 80 per cent.

The above figures represent our opinion based on our experience in handling spot cotton in this territory during the past 10 years.

Yours, very truly,

J. M. HEARD, Jr.

PARIS, TEX., April 18, 1914.

Mr. E. K. CONE,

President, New York, N. Y.

DEAR SIR: Replying to your favor of the 9th instant, will say that it is very hard indeed to give an intelligent idea of grades in this section which would not pass Government standard during an abnormal year like this. Would say about 30 per cent of this season's crop would not pass and that about 10 to 15 per cent normal seasons would be about right.

Your letter to the writer as president of the Paris Cotton Exchange duly received, but reply was delayed on account of absence from the city. Will say that this exchange does not keep a daily record of grade differences, as practically all cotton in this section goes export, and grade differences are fixed by the buyers' limits from the other side. In other words, we do not attempt to make official differences here. In case of trouble between buyer and seller, arbitration would be based upon the value the day of settlement. Grade differences the past season have been much wider below middling than ever known before on account of the large amount of low grades and undesirable cotton in this section.

Yours, very truly,

WILD & ORME,  
By C. D. HUDSON.

VICKSBURG COTTON EXCHANGE,  
Vicksburg, Miss., April 18, 1914.

EDWARD K. CONE, Esq.,

President New York Cotton Exchange.

DEAR SIR: In answer to your letter of April 7, I am directed to state that our committee on quotation and classification is not active, but that our grades

and prices are usually fixed on the basis of those prevailing in the New Orleans market.

In answer to the last question, there is practically, if not positively, no seven-eighths-inch staple grown in our section; our short-staple cotton is always longer than this.

Very truly, yours,

J. H. COOK, *Secretary.*

THE OKLAHOMA STATE COTTON EXCHANGE,  
*Oklahoma City, April 13, 1914.*

Mr. EDWARD K. CONE,  
*Room 74 Cotton Exchange, New York, N. Y.*

DEAR SIR: Yours of April 7 has been received, and in reply beg to say that this exchange does not make any quotations or arrange any differences in grades, each firm issuing their own difference sheets to the country, based upon orders they are receiving or can obtain. I think that something like 15 to 20 per cent of the Oklahoma crop produced this year would be classed below the lowest type shown in the Government standard; of course this is merely an opinion. I think that in a normal year there would be practically no cotton in Oklahoma below seven-eighths of an inch in staple. In a season like the one just passed, I think 5 per cent would cover the amount easily.

Yours, very truly,

W. E. GOUDELOCK, *President.*

MADDOX-RUCKER Co.,  
*Atlanta, Ga., April 13, 1914.*

Mr. E. K. CONE,  
*President New York Cotton Exchange, New York, N. Y.*

DEAR SIR: Replying to yours of the 7th. Our market is a high-grade section. We have a very small percentage of cotton below middling, scarcely 1 per cent of our receipts an average season. We have tinges in abundance and some stains, but no very low grades. We arrive at our differences by the demand and the quantity of off grades that we judge will come upon the market, and we change our differences as occasion requires. We are inclosing you on the form sent other information asked for.

Yours, very truly,

G. A. NICOLSON, *President.*

VAN LIEW & Co.,  
*Temple, Tex., April 10, 1914.*

Mr. EDWARD K. CONE,  
*President New York Cotton Exchange, New York, N. Y.*

DEAR SIR: We have your circular letter under date of the 7th, and in compliance with your request we inclose cards showing the differences on and off middling as they have prevailed in our market during the season. Tinges and stained cottons have been scarce throughout the season, but one-half cent off for spots and 1 cent off for tinges and stains have been the prevailing differences. Blue, or storm cotton, which at one time was plentiful, was taken at a value determined on at the time such cottons were received, but had no really fixed difference.

The quotations in our market are made up from prices that are paid each day and which are controlled to a great extent by receipts, cotton offered for sale, and the demand. Our differences on and off middling are made and governed entirely by differences circulated by the different exporting houses in Texas and in our section, all exporting firms fixing these differences by what they are able to turn the different grades to Europe and the Continent.

Our section does not produce cotton of inferior staple. In a normal season there would be nothing below 1 inch in staple, and in a droughty year we would not get over 3 per cent going under this length.

Trusting this letter covers the information desired by you, and if at any time we can be of service, command us.

Yours, very truly,

TEMPLE COTTON EXCHANGE,  
By W. L. VAN LIEW, *President.*

TEMPLE, TEX., *September 1, 1913.*

DEAR SIR: Beginning to-day our differences above and below middling are as follows, good until changed:

Good middling, one-fourth cent on; strict middling, one-eighth cent on; strict low middling, three-eighths cent off; low middling, 1 cent off; strict good ordinary, 2 cents off; good ordinary, 3 cents off; strict ordinary, 4½ cents off; ordinary, 5½ cents off; spotted cotton, one-fourth cent off white; tinged cotton, one-half cent off white.

Yours, very truly,

VAN LIEW & Co.

TEMPLE, TEX., *October 1, 1913.*

DEAR SIR: Beginning to-day our differences above and below middling are as follows, good until changed:

Good middling, three-eighths cent on; strict middling, three-sixteenths cent on; strict low middling, three-eighths cent off; low middling, 1 cent off; strict good ordinary, 2½ cents off; good ordinary, 3½ cents off; strict ordinary, 4½ cents off; ordinary, 5½ cents off; spotted cotton, one-fourth cent off white; tinged cotton, one-half cent off white; blue, one-half cent grade off white.

Yours, very truly,

VAN LIEW & Co.

TEMPLE, TEX., *November 1, 1913.*

DEAR SIR: Beginning to-day our differences above and below middling are as follows, good until changed:

Good middling, one-half cent on; strict middling, one-fourth cent on; strict low middling, three-eighths cent off; low middling, 1½ cents off; strict good ordinary, 2½ cents off; good ordinary, 3½ cents off; strict ordinary, 4½ cents off; ordinary, 6 cents off; spotted cotton, one-fourth cent off white; tinged cotton, one-half cent off white.

Yours, very truly,

VAN LIEW & Co.

TEMPLE, TEX., *November 22, 1913.*

DEAR SIR: Beginning to-day our differences above and below middling are as follows, good until changed:

Good middling, one-half cent on; strict middling, one-fourth cent on; strict low middling, one-half cent off; low middling, 1½ cents off; strict good ordinary, 2½ cents off; good ordinary, 3½ cents off; strict ordinary, 4½ cents off; ordinary, 6 cents off; spotted cotton, one-half cent off white; tinged cotton, 1 cent off white.

Yours, very truly,

VAN LIEW & Co.

TEMPLE, TEX., *December 15, 1913.*

DEAR SIR: Beginning to-day, our differences above and below middling are as follows, good until changed:

Good middling, five-eighths cent on; strict middling, five-sixteenths cent on; strict low middling, one-half cent off; low middling, 1½ cents off; strict good ordinary, 2½ cents off; good ordinary, 3½ cents off; strict ordinary, 4½ cents off; ordinary, 6 cents off; spotted cotton, one-half cent off white; tinged cotton, 1 cent off white.

Yours, very truly,

VAN LIEW & Co.

TEMPLE TEX., *January 15, 1914.*

DEAR SIR: Beginning to-day, our differences above and below middling are as follows, good until changed:

Good middling, three-fourths cent on; strict middling, three-eighths cent on; strict low middling one-half cent off; low middling, 1½ cents off; strict good ordinary, 2½ cents off; good ordinary, 3½ cents off; strict ordinary, 4½ cents off;

ordinary, 6 cents off; spotted cotton one-half cent off white; tinged cotton, 1 cent off white.  
off white.

Yours, very truly,

VAN LIEW & Co.

TEMPLE, TEX., February 1, 1914.

DEAR SIR: Beginning to-day, our differences above and below middling are as follows, good until changed:

Good middling, three-fourths cent on; strict middling, three-eighths cent on; strict low middling, one-half cent off; low middling,  $1\frac{1}{2}$  cents off; strict good ordinary,  $2\frac{1}{2}$  cents off; good ordinary,  $3\frac{1}{2}$  cents off; strict ordinary,  $4\frac{1}{2}$  cents off; ordinary, 6 cents off; spotted cotton, one-half cent off white; tinged cotton, 1 cent off white.

Yours, very truly,

VAN LIEW & Co.

TEMPLE, TEX., April 1, 1914.

DEAR SIR: Beginning to-day, our differences above and below middling are as follows, good until changed:

Good middling, three-fourths cent on; strict middling, three-eighths cent on; strict low middling, three-fourths cent off; low middling,  $1\frac{1}{2}$  cents off; strict good ordinary,  $2\frac{1}{2}$  cents off; good ordinary,  $3\frac{1}{2}$  cents off; strict ordinary,  $4\frac{1}{2}$  cents off; ordinary, 6 cents off; spotted cotton one-half cent off white; tinged cotton 1 cent off white.

Yours, very truly,

VAN LIEW & Co.

WAXAHACHIE, TEX., April 10, 1914.

MR. EDWARD K. CONE,

President New York Cotton Exchange, New York, N. Y.

DEAR SIR: In answer to your favor of the 7th of April, we are inclosing you our difference sheets, showing the differences prevailing at the different dates. We arrive at these differences by the way we have to sell cotton, and as most of our cotton is sold in Liverpool and Bremen we make the differences on the prices we can get there.

A normal season our staple runs 1 to  $1\frac{1}{4}$ ; the past season it was 1 to  $1\frac{1}{8}$ ; we never have any below seven-eighths inch.

I suppose there was in this (Ellis) county 300 or 400 bales of very low grade and what we call perished staple; the cotton stayed in the field until it rotted.

This county made 126,000 bales, and you can figure the percentage of inferior staple.

Yours, very truly,

C. D. PICKETT & Co.

Differences prevailing November 1 to January 1, 1914: Strict good middling, three-fourths on; good middling, one-half on; strict middling, one-fourth on; strict low middling, one-half off; low middling,  $1\frac{1}{2}$  off; strict good ordinary,  $2\frac{1}{2}$  off; good ordinary,  $3\frac{1}{2}$  off; strict middling tinged, one-fourth off; middling tinged, one-half off; strict low middling tinged,  $1\frac{1}{2}$  off; low middling tinged,  $2\frac{1}{2}$  off.

Differences up to November 1, 1913: Strict good middling, three-eighths on; good middling, one-fourth on; strict middling, one-eighth on; strict low middling, five-sixteenths off; low middling, 1 off; strict good ordinary,  $1\frac{1}{2}$  off; good ordinary, 3 off; strict middling tinged, one-eighth off; middling tinged, one-fourth off; strict low middling tinged, 1 off; low middling tinged, 2 off.

Since January 1 to date, April 10, 1914: Strict good middling,  $1\frac{1}{2}$  on; good middling 1 on; strict middling, three-fourths on; strict low middling, one-half off; low middling,  $1\frac{1}{2}$  off; strict good ordinary, 3 off; good ordinary, 4 off; strict middling tinged, one-half off; middling tinged, 1 off; strict low middling tinged, 2 off; low middling tinged,  $2\frac{1}{2}$  off.

Differences have been wider than ever before on account of so much low cotton.

**STATEMENT OF MR. EDWARD K. CONE, OF NEW YORK, N. Y.,  
PRESIDENT OF THE NEW YORK COTTON EXCHANGE.**

The CHAIRMAN. Mr. Cone, you have heard Mr. Marsh's statements in reference to these various proposals here, and I would like to ask you as the representative head of the New York Cotton Exchange whether you agree in general with the statements submitted by Mr. Marsh to the committee?

Mr. CONE. Generally speaking, I do; yes, sir. There is one thing Mr. Marsh omitted to state, which is a minor matter, on the matter of standardization. I think it is very necessary that the Government standards should be changed so as to include all varieties of cotton, as Mr. Marsh has suggested. I do not think that at the moment, as they are made up, they properly represent these cottons, and particularly they do not represent the cottons of the Atlantic States. I think, therefore, there should be given to the Secretary of Agriculture authority to change those standards, but having once been changed they should be fixed and unalterable.

As I wrote you, I do not think we should have a 35-inch yard measure this year and a 37-inch yard measure next year. When the standards have been once arrived at they should be kept there. Contracts are made months ahead, and in a big crop year they are made years ahead, with spinners. If you will change the standards you change the value of the contract; you see, there would be considerable confusion if you did that.

The CHAIRMAN. Yes. Your proposition is if we establish a standard, we ought to establish it once for all.

Mr. CONE. Once and for all.

The CHAIRMAN. Mr. Cone, I think I asked you yesterday, probably not as fully as I might have done, if these various propositions before the committee—the three bills—the Candler bill, which is the old Scott bill, Senate bill 110, and the House bill—have been submitted as to their constitutionality to your lawyer?

Mr. CONE. No sir; they have not.

The CHAIRMAN. You told us yesterday that the attorney for the New York Cotton Exchange was Mr. Taft?

Mr. CONE. Yes.

The CHAIRMAN. What Mr. Taft?

Mr. CONE. Mr. Henry W. Taft.

The CHAIRMAN. Have you consulted any attorney in the city of Washington?

Mr. CONE. No, sir.

The CHAIRMAN. Have you consulted any attorneys in reference to this bill?

Mr. CONE. No; we never have, Mr. Lever, anywhere.

Mr. HAUGEN. What is your idea about Federal inspection and grading or classing? Do you agree with Mr. Marsh in what he said?

Mr. CONE. Well, I do not think it makes very much difference. It is very hard to get good classers, as Mr. Glenney can tell you. We have seven up in New York that we call pretty good, but we have to guarantee their work. We have now the Government standards. The New York Exchange has adopted the Government standards; but it is an open question, and any man can dispute our classification.

Mr. HAUGEN. Who settles it finally? Who has the last say?

Mr. CONE. Our classification committee has the last say.

Mr. HAUGEN. And that is made up of members of the board?

Mr. CONE. No. They are men whom we get from all over the country, men such as Mr. Millett, who was here yesterday, who has served a long apprenticeship in the South, in Memphis and elsewhere.

Mr. HAUGEN. Are they interested in the exchange?

Mr. MAGUIRE. Are they members of the exchange?

Mr. CONE. Two or three of them are members of the exchange. But they have been out of the active cotton business for a long time. They are forbidden by the rules to engage in any business, and any member having any dealings with them in cotton is liable to expulsion.

Mr. MAGUIRE. Are they classed as employees of the exchange?

Mr. CONE. Employees; yes.

Mr. MAGUIRE. On a salary?

Mr. CONE. Yes, sir; \$3,000 each.

Mr. MAGUIRE. They stay in New York most of the time?

Mr. CONE. All of the time.

Mr. HEFLIN. How many inspectors would you have? Mr. Haugen asked you if you were in favor of the Government naming inspectors. How many would you suggest be appointed by the Government to classify cotton?

Mr. CONE. It depends entirely upon how you are going to do it. If you are going to do it to save wastage, it should be done in the South where they could train the farmers how to handle their cotton, but you would have to have a great corps of employees.

Mr. HEFLIN. You do not think it would be necessary, Mr. Cone, to have a Government classifier or classer, whatever you call them, at every local market, do you?

Mr. CONE. I do not think so.

Mr. HEFLIN. Don't you think the suggestion I made about a cotton court, or a court to pass on the differences between buyer and seller, when they could not agree as to the grade that was contracted for—don't you think that a court of that sort would be a valuable thing, disinterested?

Mr. CONE. They would be disinterested; yes. I do not know just how it would work out. I never gave that any thought, Mr. Heflin.

Mr. HAUGEN. Don't you think it would be quite sufficient to place these inspectors at the principal ports where cotton is being exported and then at the principal terminals, say, 10 or 15, or whatever it may be? For instance, we are inspecting meats. We are not sending inspectors to the farmer who kills a calf or two; we are sending them to the big packing houses. And, for instance, it is proposed that we should provide for the inspection and the grading of grain. It is proposed that we should put the inspectors in, I believe, at a dozen terminals, which would meet all the requirements. We do not think of putting in an inspector at every town; there is no need of them, because there is not sufficient inspection there to be made.

Mr. CONE. I should say, offhand, if you are going to have any such system as that, it should be at the compress. That is where

every bale is handled. The bale is not often seen by the buyer of that cotton from the time, we will say, it leaves Dallas until it gets over to Bremen.

Mr. HAUGEN. Do you mean that the classer is to have the power to stand there and go through the bale every time it is compressed?

Mr. CONE. No.

Mr. HAUGEN. A bale has to go through these terminals—Memphis and New York?

Mr. CONE. No; it may be bought in the interior.

Mr. HAUGEN. Oh, certainly; but the merchant buys it from the farmer, and he sells to a particular spinner, and every time there is the place for the inspection. The spinner buys from the merchant, and he wants to know exactly what he is getting; he wants this bale inspected by a disinterested party from the party from whom he buys. If he buys at Memphis, he wants it graded at Memphis, exactly as at New York. We want uniform grading.

Mr. CONE. If you want to benefit the farmer, you want to inspect it when it leaves the gin. Then the farmer gets the full benefit of the scientific knowledge of the inspector.

Mr. HAUGEN. The farmer every time pays the loss. I have been a merchant myself, and I know the merchant is not doing business for the fun of it. They simply want a square deal, and they will treat the farmer fairly if they get a square deal. But if they buy a bale of cotton not knowing whether it is going to be graded No. 1 or 2, or upland, or whatever you call it, then it is uncertain with them; it is all a speculation. They want to know when it reaches a terminal that it will be inspected and it will be graded exactly for what it is, by a disinterested party.

Mr. CONE. Yes; it might be a help.

The CHAIRMAN. We are very much obliged to you, Mr. Cone. I would like to ask Mr. Glenny, the president of the New Orleans Cotton Exchange, to give his views to the committee.

Mr. Glenny, I hope you will make your statement as short as possible.

#### STATEMENT OF MR. E. J. GLENNY, PRESIDENT OF THE NEW ORLEANS COTTON EXCHANGE, NEW ORLEANS, LA.

Mr. GLENNY. I shall do so, Mr. Chairman. I feel very much like the little boy who was permitted to go down for the dinner party to observe and had to go to bed early. However, I shall feel that I have learned a great deal about the cotton business, although I have been in it for twenty-odd years, having heard the discussions from the various members of the committee. I will not attempt to defend the cotton exchanges for their existence at all, but simply, as nearly as I can and as concisely as I can, to touch upon the provisions of the bill.

The CHAIRMAN. I am very glad you are pursuing that course, and I think you have been here during all of the hearings, and you know the disputed points in the bill, if this bill is to be passed. If another bill is to be passed, why, of course, we do not know that yet.

Mr. GLENNY. I will skip the first two sections of the bill and proceed to section 3, line 19, and touch upon the words—the change proposed by Mr. Marsh—“a resident of.” I agree with Mr. Marsh entirely that, left as it is in the bill, it can be easily defeated in the courts. And, further—I do not think Mr. Marsh brought it out in his discussion—I will say that as it stands, without two words, “a” and “of,” it will cover those men who are in the United States doing business for foreign exchanges more easily than it would otherwise. And I want to bring this before the committee, that a member of the Liverpool Cotton Exchange, as I understand it, must be a resident of the British possessions; and by no chance could any American become a member of the Liverpool exchange unless he became a resident of England, Ireland, or Scotland. The result would be the transfer of the business from this country not only in name but in actual fact, and they would have the power, which I hardly think any of us want to give them, to make the price of the commodity from a consumer’s viewpoint. I think it is very important that those two words should be eliminated.

We will pass on, then, to section 5 in regard to the rate of tax.

The suggestion has been made for 5 cents rather than 25 cents. I agree entirely with that suggestion, and I believe that such a tax will be absorbed by the brokers, and it will therefore not go back to the consumer. Nor will it go back to the producer. I believe if it is absorbed by the brokers—Mr. Marsh will bear me out—that from the economic point of view it will not touch either of those two parties. And I want to say in that connection, that while Mr. Marsh stated that 25 cents was insignificant, 25 cents is not, in my opinion, insignificant, for the reason that these contracts will have to be stamped at each transfer, and there may be 10, 15, or 20 transfers, and 25 cents will be multiplied just so many times as they are transferred.

In the time that we had the tax of 1 cent, I think it was, per hundred pounds, after the Spanish-American War, the tax amounted to in the neighborhood of 30 to 35 cents, cotton being between 6 and 7 cents a pound.

The CHAIRMAN. Do you happen to know how much revenue was raised from that?

Mr. GLENNY. I do not know, but I know how much expense there was. One hundred dollars’ worth of stamps did not last any time at all, and it became very burdensome. Patriotism probably prevented complaint, but I think the thing that affected us most was there was no use of kicking against it. We had to pay it.

Now, paragraph 5 of section 5—or, before we touch upon that point, there was some discussion as to what was meant by the Government standards and what grades would be deliverable upon the contract. I take it that the words in the bill mean what they say. On page 4, line 5, I find the words “delivered thereunder shall be of or within the grades for which standards are established by the Secretary of Agriculture, except as prohibited by the fifth subdivision of this section, and no other grade or grades.”

I take that to mean that “of or within the grades” implies that they can be of those grades or of any intermediate grade between good ordinary, and middling fair.

I also wish to call attention to the word “standard.” I take it to mean exactly what it says, a standard and not a type. It is a stand-



ard of classification, not a thing that must be exactly matched, as a type would have to be.

With that I take into consideration the fifth paragraph of section 5, on page 4, which definitely provides against what can not be delivered upon the contract. Taking those three things together, I do not see where any difficulty would come under the bill in delivering cotton of the grades, or, I will put it "of variations of the grades" which are contemplated by these standards of classification.

Mr. LEE. You think repacked, false packed, or mixed packed would cover it?

Mr. GLENNY. No, sir. They are different things in the cotton business. I will touch on the fifth paragraph, and I may save some time. I say that the fifth paragraph is vague and does not fully cover the necessities of the trade. In other words, it should be, if anything, more stringent than it is here; but at the same time it should be, I was going to say, more elastic, if we could have such a condition. But if we stick to what is here we have definitely described the cotton which would not be deliverable upon a contract. The other cotton, therefore, is deliverable upon a contract, and I want to say to you gentlemen, particularly those who know nothing of cotton, that the things that occur in the cotton crop are so many and so unexpected that we can have all sorts of new terms applied to a bale of cotton that no man can dream of being used. For instance, bollies, reginned cotton, and machine cotton, and such things as were brought out very fully here.

Now, when you say shows an excess of seed——

Mr. HEFLIN. Before you go to that, Mr. Glenny, let me ask you a question about repacked. In a good season, when the cotton is all fair, free from trash and stain, the samples that had been in the various local markets of the South are packed again. That is repacked.

Mr. GLENNY. Yes, sir.

Mr. HEFLIN. Now, that is as good cotton in some seasons of the year as we can find in the whole South.

Mr. GLENNY. We have a contract with the exchange for that sort of cotton, with the men who rebale it, and we sell that cotton at 1 cent a pound below the price of low middling.

The CHAIRMAN. The reason, I presume, Mr. Glenny, that you——

Mr. GLENNY. You can not get any more for it, Mr. Lever; that is the only reason.

The CHAIRMAN. For the reason, I say, as a matter of fact, it is not as good as another cotton, because it is a bale of very much mixed grades, and the spinner could not use it so well.

Mr. GLENNY. But not only that, Mr. Lever; of necessity it is in the shape of samples, and it does not work in the mill as well as it would if it were a bale of even length.

The CHAIRMAN. Of even running length?

Mr. GLENNY. Yes.

The CHAIRMAN. Have you repacked cotton delivered on contract?

Mr. GLENNY. No, sir; by no means.

The CHAIRMAN. It is not now deliverable on a New York contract, is it?

Mr. GLENNY. No, sir; nor false packed, nor what is intended here to be "mixed" packed.

Mr. HEFLIN. What do you mean by "false packed" and "mixed packed"?

Mr. GLENNY. A mixed-packed bale is that bale which contains two or more grades of cotton; that is, distinctly two or more grades of cotton. All bales of cotton contain a variation of its own grade. There is no bale of cotton that was ever put up that you could sample from the top and the bottom and not get two different grades of cotton.

Mr. HEFLIN. What do you mean by "false packed"?

Mr. GLENNY. False packed is cotton which has not been fairly packed.

Mr. MARSH. It looks so when it is put in the bale.

Mr. GLENNY. Fraudulently packed. It might have a grindstone in the middle of it. I will tell you what happened to a cotton factor who ran his bale of cotton through the compress. And, by the way, if you put a grindstone in you are liable to break the compress. He found this grindstone in the middle of the bale when the hoops were taken off so that the bale could be compressed. He was told that he had better send it back to the farmer or charge him for it, and he said no; but when he had occasion to ship him a barrel of sugar he would put the grindstone in it and ship it back to him. He did, and that barrel of sugar and stone have never been heard from since. [Laughter.]

Mr. HAWLEY. Which was the more valuable?

Mr. GLENNY. At that time sugar was; but the farmer did not want to acknowledge the grindstone. [Laughter.]

Now, you say in this, "show an excess of seed." I may consider one seed in a bale of cotton excessive seed, or I may consider a thousand seeds excessive seed. We use the term "seedy" on our exchange. It is, in commercial parlance, a definite thing; but in a statute it would be indefinite and subject to the interpretation of the courts.

Mr. HEFLIN. You say you call it "seedy."

Mr. GLENNY. Seedy; yes; it means excessive seed.

Mr. HEFLIN. Something like "mokes" about gins; is that it?

Mr. GLENNY. Yes.

Mr. HEFLIN. Hulls and seeds mixed in.

Mr. GLENNY. No; not hulls; just simply seed; "or that shows an excess of seed, sand, dirt," etc. To those I apply the same explanation; "or that shows excessive damage in ginning." That is what is termed "gin cotton," which ought to be by all means left out; "all bales containing any pickings or linters, or cotton that is of grade lower than low middling," for which I suggest "good ordinary," "or lower than strict low middling tinged, or lower than middling stained." Lower than low middling is a definite thing. Lower than strict middling tinged is another definite thing. Is low middling lower than low middling tinged? By lower than low middling stained you have three low grades to be delivered on a contract.

The CHAIRMAN. What is your suggestion there?

Mr. GLENNY. I would say, of course, always reserving the opinion that good ordinary should be substituted for low middling; or if tinged, not lower than strict low middling; or if stained, not lower than middling—

The CHAIRMAN. You make that clearer in language.

Mr. GLENNY. It makes it clearer and it fixes your low grade, "or cotton that is less than seven-eighths inch or more than  $1\frac{1}{8}$  inches in length of staple." There has been a great deal of discussion on that. I came up here prepared to advocate five-eighths of an inch. I would be willing to compromise on three-quarters of an inch.

Now, while we are upon that particular subject, Mr. Chairman, I want to say this, that seven-eighths inch does not mean that cotton of seven-eighths inch will be delivered upon a contract. There is no man in the business who would dare to ship seven-eighths cotton for delivery, because if he was the slightest fraction under that he knows that he would be penalized one-quarter of a cent a pound. That being the case, he would send cotton not less than an inch, and probably longer.

Now, in finding seven-eighths of an inch, what is it in cotton parlance? On a damp day, with the staple that is one thing, on a dry day it is another. It would vary a fraction of an inch, due entirely to the moisture of the weather.

Mr. HAWLEY. What fraction of an inch?

Mr. GLENNY. It might vary even one-sixteenth of an inch in long-staple cotton. To-day it would pull well; to-morrow it is dry, and it would not. If the room is steam heated when cotton is classed, it has a material effect upon the staple; and frequently they will have—I do not approve of it—the rooms in which the cotton is stored sprinkled in order to preserve the staple in the cotton; and the mills use a means of keeping the atmosphere moist and have instruments giving the exact moisture, so that they can spin the cotton from the staples which they use.

So that when you come down to a definite thing like seven-eighths of an inch, which has been shown by the testimony here before this committee to be mighty close to the very edge of what is grown, I think that we ought to have a shade of latitude, and for that shade I would suggest one-sixteenth inch, or three-fourths inch as the low limit.

The CHAIRMAN. Would you make that less than one-sixteenth inch or less than seven-eighths inch?

Mr. GLENNY. Anything within three-fourths inch. That would be fair. Now, I do not agree with Mr. Marsh as to penalizing any deliveries below that, because it is going to create confusion and a good deal of trouble in the future contract markets of the country. The people will be quibbling as to whether it is exactly three-fourths inch or exactly seven-eighths inch, and there will be a good deal of confusion. I would therefore suggest after paragraph 5 that it read something along these lines:

*Provided*, That cotton of perished staple or gin cotton or cotton which is reduced by any collateral or extraneous matter below a reasonable value of the grade which it represents, be excluded from the contract.

I think you can frame that in better words, but what I mean to say is that cotton that is slightly stained or slightly bluish or slightly gray or something of that sort, which is not by virtue of its stain or grayishness reduced below a certain value, should be a good delivery, and would obviate what Mr. Marsh pointed out, the abnormal depreciation in the values of such cotton as the farmer has to raise on

account of weather conditions, and it would also broaden the contract, which I conceive to be absolutely necessary, unless we propose to pass the spinners' contract.

I will pass over, then, to section 6 of the bill:

*Provided*, That all tenders of cotton under such contracts shall be the full number of bales involved in the contract.

Bales of cotton involved in the contract may weigh 30,000 pounds, 100 of them, and be merchantable cotton. They might weigh 60,000 pounds of cotton and be a merchantable contract.

The CHAIRMAN. I know; but, Mr. Glenny, the bill provides in another place what shall be the weight of the bale.

Mr. GLENNY. Therefore it should provide here for pounds, rather than bales, I think, or say, "The whole number of pounds involved in the contract, within 1 per cent."

The CHAIRMAN. I was just about to suggest that the bill fixes what shall be the weight of the bale in another section—500 pounds.

Mr. GLENNY. I know it does, and that is what prompted me to make this "pounds" rather than "bales."

Mr. MARSH. Will you permit me to call attention to the fact that this year a very large number of bales of cotton, a great many hundred thousands, and possibly over a million bales of cotton in Texas and Arkansas and Oklahoma have suffered heavy country damage, as it is called, by reason of its being exposed to the weather, and this damaged cotton has had to be picked off the exterior?

The CHAIRMAN. Would you suggest "pounds" instead of "bales," Mr. Marsh?

Mr. MARSH. I think it would be safer.

The CHAIRMAN. You would make that 50,000 pounds?

Mr. MARSH. If you make it a number of bales you will put a man in Texas who has had to pick 50 or 60 pounds of damaged cotton off his bale and then has a perfectly sound bale, in the position where he can not possibly sell that cotton for delivery on an exchange contract.

Mr. GLENNY. Mr. Chairman, you will do worse than that; you will put it in the power of the man who is short of cotton for delivery at a high price to select the heaviest cotton he can possibly find and make me pay for it at a high price, and it will make, as I have just shown you, a difference of 100 per cent in that man's loss if he selects heavy bales rather than light ones, and goes to the extreme.

Mr. HAUGEN. Do the bales vary very much in weight?

Mr. GLENNY. There was cotton raised in Louisiana of 700, 800, and 900 pounds. There is a crop well known in Louisiana which runs two bales for every bale that is picked, and it was done to avoid the per-bale levy tax. It would then read, "pounds involved in the contract, and that the person making the tender shall give to the person receiving the same five days' notice of the date of delivery, which notice shall state the grade of each individual bale to be delivered, with accurate identification thereof."

In other words, the man delivering cotton must, prior to delivery, have received his cotton, turned it out at the grade, restore it, and await the day for delivery. You are imposing, through that provision, a tax directly, as I conceive it, because it will be shoved back upon the producer. You are causing an unnecessary handling of the

cotton. I say "unnecessary," because I believe that I can show you how that charge can be done away with. I would suggest words along these lines:

And when delivered the deliverer shall furnish the receiver a certificate showing the grade and identifying each bale separately by means of a mark or number: *Provided*, That delivery shall be made prior to certification, in which event the deliverer must give the receiver a certificate within five days—

I make it five days—

after the actual delivery has been made: *And provided further*, That if the certificate is not furnished within the time specified the deliverer shall reimburse the receiver for all expenses occasioned by such delay.

That takes from the receiver the burden that he complains of through the pro forma invoice, of having cotton in his possession of which he knows nothing beyond the payment. If the deliverer must pay the receiver for all expenses to which he is put by reason of his delay or of any delay in the certification of the cotton, then he will see to it that he is in such a state of preparedness that there will be as little delay as the physical conditions will permit, and I think it will go a long way toward preventing accumulation of cotton for a month-end delivery, and it will do away with any such idea as was advanced here by Mr. Hill yesterday to stop trading in the current month on the first day of the month. That is one of Mr. Hill's suggestions. I am sorry he is not here. It is one of the most peculiar suggestions that I have had the honor of listening to in the discussion of cotton exchanges. In the first place it does not accomplish what Mr. Hill proposes, for the reason that they may substitute April for May, and vice versa, May for April, and so on; and would get around that so easily that it is not worth while discussing.

I think you could add to that clause also that any cotton covered by a certificate could be disposed of without invalidating the present certification of the remainder of the cotton under that certificate.

On page 5, section 6, of this bill I find the words "differences in value." Perhaps I had better begin a little farther back, or probably it would be well to read the whole section:

That for the purposes of section five of this act the differences above or below the contract price which the receiver shall pay for cotton of grades above or below the basis grade in settlement of a contract of sale for the future delivery of cotton shall be determined by the actual commercial differences in value thereof established by the bale of spot cotton of the same grades, respectively, made upon the sixth business day prior to the settlement of the contracts in the market where the future transaction involved occurs and is consummated.

The objection I have to that is, as has been brought out to some degree in these hearings, it might occur that in no spot market of the United States has any cotton of a certain grade been sold on the sixth day prior to the day of delivery. In other words, to give you a concrete example, I may have low middling cotton in my possession which I wanted to deliver on the 27th day of May. The value would have to be fixed on the 21st day of May, and it might so happen that no cotton grading low middling would be sold on that date. Therefore, there would be no value upon which I could base my delivery. I would suggest, therefore, the striking out of the words, on line 19, "in value thereof," and the substitution of the word "value" on line 24 for the word "sale"; and on line 21

strike out the words "settlement of" and substitute "delivery of the cotton on." It would then read:

The receiver shall pay for cotton of grades above or below the basis grade in the settlement of a contract of sale for the future delivery of cotton shall be determined by the actual commercial differences established by the value of spot cotton of the same grades, respectively, made upon the sixth business day prior to the delivery of cotton on contract.

I would substitute the word "delivery" for the words "settlement of," because it is a misused word in connection with cotton contracts.

The CHAIRMAN. The word "settlement" is?

Mr. GLENNY. Settlement. Settlement of a contract sometimes occurs long after the delivery has been made.

I am trying to be, gentlemen, as concise as possible.

The CHAIRMAN. You are doing it beautifully, too; go ahead, sir.

Mr. GLENNY. I would substitute for the word "eight," on page 6, line 4, the words "not less than five."

Mr. HEFLIN. Not less than five?

Mr. GLENNY. Instead of eight places you would have not less than five places.

Mr. HAWLEY. You heard Mr. Marsh's suggestion that this provision be eliminated altogether and left to the discretion of the Secretary of Agriculture, did you not?

Mr. GLENNY. Yes.

Mr. HAWLEY. What do you think of that?

Mr. GLENNY. To select any number of places?

Mr. HAWLEY. No; but to be left to him.

Mr. GLENNY. I have too high a regard for the Secretary of Agriculture to compel him to enter into the controversies of the cotton buyer and seller. I think that the exchanges should determine the value of the cotton locally and let the Secretary decide as to which places have properly determined those values and from those places decide as to which places should be selected as a basis for quotations.

Mr. HARRISON. You would not be afraid the Secretary would not select New Orleans for one of those places, would you?

Mr. GLENNY. Well, Mr. Harrison, I have ceased to think along those lines. [Laughter.]

Mr. HEFLIN. Right in that connection I want to ask you a question, Mr. Glenny. Your answer there a moment ago suggested it to me. I asked Mr. Marsh how they obtained an opinion or how they reached the conclusion as to what the price should be of cotton at the opening of the season. How do you get at that?

Mr. GLENNY. What the price of cotton should be?

Mr. HEFLIN. At the opening of the season. When there are no sales of spot cotton a few days before to give you an idea how to proceed, how do you arrive at the conclusion that the price should be 10 cents a pound or 11 cents a pound or 13 cents a pound, and you send out quotations like the New York Exchange?

Mr. GLENNY. Well, Mr. Heffin, it rarely ever happens in the New Orleans cotton market that there are not bales enough in the spot market from which to make very closely accurate, I will put it, quotations. I do not believe that it is possible that any man or set of men can say definitely what the absolute value of a bale of cotton is. They will differ a sixteenth or an eighth, almost.

Mr. HEFLIN. You used the expression that the Secretary of Agriculture should let the exchanges fix the price and that he should pass upon them.

Mr. GLENNY. He should pass upon which places have, in his opinion, most correctly arrived at the values of spot cotton in those markets.

Mr. HEFLIN. That was what I was driving at. How do you arrive at the price?

Mr. GLENNY. We have a corps of classers who go from one cotton factor's office to another daily or two or three times a day and obtain from the factors the price at which certain lists of cotton have been sold. They do not care whether the factor calls it good middling or strict good ordinary. They have in their minds always the United States Government standards of classification and they judge for themselves whether the cotton is middling or good ordinary or what not and upon that base their ideas as to the values of the various grades in the market and quote the markets from what they gather in their trips around the market. Those men are paid by the exchange and are not allowed to have any other business of any sort, their whole time being devoted to the New Orleans Cotton Exchange. They do not fix the differences off and on middling, but those differences are determined from time to time and regularly once a month, but any 15 members of the exchange can sign a petition to have the differences revised and then the appeal committee on classification meet with these three men and decide as to whether the differences should or should not be changed. In many cases they were not changed.

Mr. HEFLIN. But you can have them changed?

Mr. GLENNY. I can have them changed any day in the world when the situation justifies it.

The CHAIRMAN. All right, Mr. Glenny; go ahead with your other matters.

Mr. GLENNY. It would then read "Eight places designated for the purpose from time to time by the Secretary of Agriculture as they were established by the"—

There I should substitute the word "value" for the word "sales" to make it agree with my former suggestion.

Then it would continue:

"By the value of spot cotton of the same grades, respectively, in such five or more markets upon the sixth business day prior to the delivery of the cotton on the contract."

And on line 21 substitute for the word "price" the word "value" and make it read, "Conditions as customarily to reflect accurately the value of middling cotton" instead of the price of middling cotton. Economists may differ with me as to which is the more accurate word. I suggest that Mr. Marsh might conclude that water has a value which is not represented by its price, but I shall also contend that cotton is sometimes priced away beyond its value.

The CHAIRMAN. And frequently away below its value?

Mr. GLENNY. And away below it.

We then, on line 25, section 8, page 6, find:

*Provided*, That if there be not sufficient number of places in the markets, of which sales of spot cotton of grades for which standards are established by the Secretary of Agriculture are made to enable him to designate each bona

side spot market, he shall, from the data as to spot sales collected by him, determine, for the purpose of designating the eight spot markets mentioned in section 6 of this act, the values of spot cotton of the grades established by him.

Frankly, Mr. Chairman, I do not know what I have read. [Laughter.] I do not know the meaning of that paragraph. It appears to me to mean that if there are not eight places, the Secretary of Agriculture will have to make eight places.

The CHAIRMAN. Which would be an impossible proposition.

Mr. GLENNY. It looks that way a little bit to me, and I think it can be rewritten to get the exact meaning intended.

The CHAIRMAN. I think what we had in mind in that proposition was to permit the Secretary of Agriculture, if they were not made at these places, to gather such data at such other places as he could, and fix the value.

Mr. GLENNY. I thought that, too. I thought that was the meaning.

Mr. HEFLIN. What would you suggest there, Mr. Glenny?

Mr. GLENNY. Well, I have absolutely no objection to the Secretary, if he can not find five places in the United States, determining the value.

The CHAIRMAN. Do you think there will ever come a time when there will not be five markets in all of the 6,000, I believe Mr. Marsh mentioned, terminal markets—that you can not find five out of that number upon which to have spot prices or values?

Mr. GLENNY. Mr. Chairman, I will answer that by saying that when that time comes I hope I am long on a good deal of cotton.

Mr. MARSH. May I say, Mr. Chairman, that at this present moment there are not five places in the United States at which, during the month of May, there will be a single transaction in middling fair cotton or in strict middling cotton.

Mr. GLENNY. Mr. Marsh, I will answer your suggestion by referring you to the suggestion I made back here, which eliminates the actual sale of cotton in a market and gives you a determining factor through the sales of other grades.

Mr. MARSH. Of course, Mr. Chairman, that leaves a fair margin of discretion. The question would immediately arise whether the cotton merchant paid an absolutely exorbitant price for a few bales of a given grade, and the value was established for that grade thereby.

The CHAIRMAN. The proposition of value depends not so much upon the intrinsic value of a thing as the value that the individual puts on a thing. For instance, I have a corncob pipe that you do not care anything for, which would not be worth two whoops to you, but it is very valuable to me.

Mr. HAWLEY. You are not putting that up as an economic proposition, are you, Mr. Chairman?

The CHAIRMAN. No; but I am illustrating the economic theory I have in my mind. Is that not the fact?

Mr. HEFLIN. I hope the chairman is not undertaking to compare the value of a corncob pipe with cotton.

Mr. MARSH. Through the exigencies of two persons who have to fulfill engagements the value is determined. We shall have from now until the middle of August large numbers of cotton merchants paying perfectly inordinate prices for certain qualities of cotton, be-



cause they have contracts on their books which they must fulfill, and it is not the question of the value of the qualities they have got to fulfill, but the price is going to be determined by the state of mind of the people who have the cotton and see that the other people have got to get it. That is what I am driving at.

Mr. GLENNY. Mr. Chairman, whenever that inordinate value is arrived at it will not be one of the grades deliverable on contract, in my opinion.

Mr. MARSH. There is force in that, Mr. Chairman.

Mr. HEFLIN. You think, then, it will be a spot-cotton transaction altogether?

Mr. GLENNY. Yes, sir; it will. But I do not figure that that has any objections. I mean that that arrangement has no objections, because the disease will cure itself.

Mr. MARSH. The point has occurred to me in that connection. It is the other end of it. It is unquestionably true this year that the exigencies of sellers in the storm-stricken districts have produced prices cents a pound below the manufacturing value of cotton.

Mr. SLOAN. While these isolated cases you speak of of inordinate value would have some effect in fixing the value, do you not think the cotton exchange or those interests would find some isolated transactions of their own that would not be inordinately high, where the general average would be about right?

Mr. MARSH. I think it is going to be taken out of the hands of the cotton receivers. My understanding is that the whole purpose of this is to get away from the cotton exchanges.

Mr. GLENNY. I want to say right there that when it is the cotton exchanges will be relieved of the greatest burden that they have ever had.

Mr. HEFLIN. Would you not taken away, then, from the farmer the greatest evil that he has complained of?

Mr. GLENNY. I do not know, and if Mr. Heflin were only a member of one of these exchanges and had to do business with them and ship cotton to the buyer and buy it from the seller, he might find that those are some of the evils that he would have to contend with.

Mr. HEFLIN. I would soon be as blind, I guess.

Mr. GLENNY. It is much easier to be in Congress, Mr. Heflin, legislating. [Laughter.]

In that connection, Mr. Chairman, Mr. Hayne brought up a point which I do not think ought to be passed up by me without some comment, and that is as to the commercial differences which he defined as differences for the entire country rather than in the town where the contract was made.

Commercial differences, as I understand the English language, are the differences which commercially exist wherever they exist. I want to be perfectly fair in this connection and say that both points appeal to me; that is to say, whether the market in which the contract is made should govern the differences or whether those differences should be governed by an average of some other number of markets situated throughout the cotton belt. In the first case, where the market itself governs the differences, we have this great advantage, and that is that the contract is begun and completed in that market. The goods are in the market, and they should have their

value where they are rather than in the remote portions of the South.

On the other hand, we are a world's market, and we cater to the trade of adjoining States, and we expect shipments from those adjoining States, and therefore should we not at least try to arrange our values so as to make them an average of the States to which we cater for business, which necessitates, however, one very serious condition, to wit, the quoting first of the markets in the town where cotton is sold from factors' tables that might be at decided variance with the quotations upon which the future contracts are based, and we would therefore have to have two spot quotation boards, one regulating cotton at home and the other regulating cotton which would be at home if it were delivered upon the contract. I simply throw out those two points for the consideration of the committee in the consideration of that particular paragraph.

Now, there is one section here, section 15, which was touched on and which I say, in my opinion, is an invitation for taxation:

That the payment of any tax levied by this act shall not exempt any person from any penalty or punishment now or hereafter provided by the laws of any State for entering into contracts for sale of cotton for future delivery, nor shall the payment of any tax imposed by this act be held to prohibit any State or municipality from imposing a tax on the same transaction.

That seems to me to rather invite taxation from the States; and if it is not needed to give the bill legal standing I should suggest that it serves no purpose in the bill.

Mr. SLOAN. Is not that simply to quiet the convictions of certain States that their right to control these matters to a limited extent is interfered with? Is not that the purpose of that provision of the bill?

Mr. GLENNY. I do not know what the purpose is, Mr. Sloan, but I know the effect of it.

Mr. SLOAN. You speak about inviting taxation.

Mr. GLENNY. It does invite taxation. I do not believe that you need to say to a State that they have a right to do something which they legally have a right to do. We can trust to them to know what their rights are.

Mr. SLOAN. Of course, a great many things along that line are debated a good deal, and I suppose they do not want to open the debate.

Mr. GLENNY. Now, as to the grades deliverable upon a contract, I want to impress upon the committee that if a future contract is to serve any purpose it should serve a broad, economic purpose, and, theoretically, it should include every kind of cotton which is grown in the Southern States. Practically, I believe that we have found, through experience, that there are certain grades of cotton which have no place upon a cotton-future market, and for the lack of a better work I shall designate that cotton as "specialty." The other cotton, which I consider should be deliverable upon a contract, I shall term "bread-and-butter cotton." It is a term used very much in the cotton business. If we permit, in other words, the delivery of cotton which will always find a market or sell in a market, we can not, under any consideration, do the receiver any harm, provided he is not put to any collateral expenses in the receiving and disposing of

that cotton. In other words, if we have a certificate which designates explicitly each and every bale and tags the bales by their grades, so that I can sit in my office and telephone to the storehouse or warehouse to ship out No. 562, which I will know to be good middling cotton, and then redeliver, if I choose, the balance of the cotton upon the same certificate and get back the cost of certification, I can not see where anybody has been hurt through the multiplicity of grades delivered upon that contract. The suggestion that a contract be made upon which one grade and one grade only should be delivered, and if more grades than one is delivered it should be penalized, would, in my opinion, destroy the future contract markets. It would, at any rate, produce a two-priced contract market, and the buyer would bid for that contract what he conceived to be minimum price which he could possibly pay for the contract, and it would do more to hurt and reduce the value of cotton than anything else that you can conceive of. The idea of it was to advance the value, which it certainly would not do. I would not buy a thing that I felt a man could charge me a dollar a bale for, and that would be the case if a man selected the cotton. Further than that, it is practically impossible for any human being to select 100 bales of cotton which would pass as an even-running class of any one grade.

Mr. HEFLIN. What do you think of the proposition in Senator Smith's bill to the effect that each bale of cotton tendered for delivery shall be separately marked and tagged before date of delivery and the date of its arrival and classification indicated thereon, and that no cotton which has been certified for a longer period than one year can be tendered or delivered?

Mr. GLENNY. I have touched upon that, or at least I offered the suggestion in paragraph 6. It is the objection of having to be certificated prior to delivery which entails an unnecessary expense on the cotton itself, and that is a burden which I do not think we ought to place upon the cotton market, because that is one thing that will certainly go back to the planter.

The CHAIRMAN. That is 65 cents a bale, is it not?

Mr. GLENNY. It depends upon the market, Mr. Chairman.

The CHAIRMAN. What is it in your market?

Mr. GLENNY. The cost in our market is 25 cents for the certification, but that is only a part of the cost that would be borne by the cotton, because it would have to be hauled into a warehouse, classified, and re-stored, and you would have interest and insurance and all of those collateral charges which would have to be borne for a considerable period of time in the busy seasons, when cotton is moving very rapidly, by the cotton itself, and it would be a very hard thing upon, I believe, the cotton crop of the United States.

Mr. SLOAN. What is the advantage of recertification, Mr. Heflin, in that bill? What is the purpose of recertification at the end of the year?

Mr. HEFLIN. I take it that what he is driving at, Mr. Sloan, is to clear the exchange; that cotton that was grown for 1914, for instance, can not be held over for 1916, 1917, and on, to be tendered on contract.

Mr. SLOAN. Some witness has testified that this cotton remains good in its fiber through storage for years and years. Is that the case?

Mr. HEFLIN. That is true, and Mr. Hill testified, according to my recollection, that the good cotton would be shipped to the spinner and that the exchange or the member, whoever was representing the seller on the exchange, would not ship bad cotton to the spinner, because he would lose his business, but that that bad cotton would go to New York and be tendered on contract. Now, then, if it does accumulate there—the bad cotton which the spinner does not want—and they could tender that to men who buy cotton and the man refused to take that cotton because he would lose money, they tender it to someone else and so on, and it is used to depress the price of cotton.

Mr. GLENNY. A great deal of stress has been laid upon that particular point during this hearing. Your bill aims to cure conditions which, in my opinion, cause this unsalable—if you want to call it such—or undesirable cotton to depress the value. You are legislating in this bill for commercial differences and a known standard. Fear very often has more to do with the depreciation in value than the actual reasons for a depreciation. For instance, I do not know exactly what a thing is and I do not want to have anything to do with it. If you have a Government standard that is universally known and you know you can not get anything else than that, and that its value, when delivered to you, will be the commercial value existing upon the sixth day prior to the day of delivery, and that you can redeliver that cotton without expense, or recertification, I can not see where you can get hurt.

Mr. HEFLIN. You have adopted the nine grades upon your exchange in New Orleans, have you not?

Mr. GLENNY. We have adopted the United States Government standards as a basis for our future deliveries.

Mr. HEFLIN. And the New York exchange has not?

Mr. GLENNY. They have their own standard.

Now, then, in considering the nine standards, I want to point out, just to note it in the record, that when they were made by the Government they were advanced very materially, so that good ordinary is better than strict good ordinary of the old standard, and if you make this low middling you are very closely approximating the old standard of middling cotton, which to-day would be far above the average of a very large portion of the cotton grown this year.

Mr. HEFLIN. You said you could not see any reason why they should recertificate this cotton. Now, what I am getting at is that if an exchange can have congregated around it 100,000 bales of cotton, or assembled 100,000 bales of cotton, that they keep there in that community through the selling season, and one man will sell to another out of that 100,000 bales, they will tender that cotton, or a part of it, to satisfy contracts around the board, in the exchange there, and over the country the farmer out yonder might determine to hold his cotton and keep it off the market, and yet by these transactions day by day, when he is declining to sell the actual cotton in the spot markets, the price is hammered down often when he is sitting still and waiting for better prices, by the manipulation of the exchange with his cotton that stays there to be tendered on contract over and over.

Mr. GLENNY. Mr. Heflin, in answer to that I would simply say this, that the system which we have adopted in New Orleans has

prevented the accumulation of any cotton under a certificate. The buyer will pay from one-sixteenth to one-eighth more for any cotton that has been certified, and we do not have on hand enough cotton under the certificate to make it worth while talking about. I do not suppose a certificate ever lives six months.

Mr. HEFLIN. But you are close to the cotton fields; you are more of a spot-cotton exchange.

Mr. GLENNY. I do not argue against that. I have never given that any material thought. It is just as well to put it in the bill. I have no objection to it.

The CHAIRMAN. That is not going to hurt anybody?

Mr. GLENNY. Not at all.

The CHAIRMAN. And probably will not do very much good one way or the other.

Mr. HEFLIN. I think it will do a great deal of good.

Mr. GLENNY. My own judgment is that with the limitations fixed in this bill that will prevent in the future the drawing to these various exchanges of the very kind of cotton Mr. Heflin says has been tendered over and over. You will get what I term a "bread-and-butter" cotton, and that is all. But I do think that we ought not to confine the deliveries of cotton to nine specific grades without any variation from those grades. If that is the meaning of the bill it spells destruction. I never took it to mean that it all. I read that "within the grades" and the specifications of what could not be delivered as meaning that anything within a given area is deliverable upon a contract, and I have qualified that by saying that if it is depreciated beyond a reasonable extent, I should suggest one-fourth cent or maybe three-eighths cent, below the value of the grade which it purports to be, through any extraneous and collateral defects, it should be undeliverable.

Mr. HEFLIN. How many members are there of your exchange, Mr. Glenny?

Mr. GLENNY. I could not give it to you absolutely accurate, but, including visiting members, about 530. About 470, I think, full members.

Mr. HEFLIN. You have not any limitation on your membership?

Mr. GLENNY. Five hundred.

Mr. CLARK. Mr. Glenny, have you touched upon the proposition of quarter grades?

Mr. GLENNY. No; I have not.

The CHAIRMAN. I think that you touched upon that in your statement, that you regarded these nine Government standards or grades to mean within those grades.

Mr. GLENNY. That would cover it, but I want just to show you, in response to Mr. Hill's remarks, the absurdity of the one-grade contract. I want to impress that upon the committee. On the free-on-board rules this cotton sold from the interior, classed out in one grade and shipped to the buyer, we have this: "When free-on-board cotton is sold on description not less than one-half of the tender shall be of the contract grade and all cotton tendered that is more than one-half grade below the contract grade may be rejected."

That is, "more than one-half grade," not "more than one-quarter grade." "Due allowance shall be made the buyer for all cotton

found to be under the contract grade that may be tenderable according to the above provision, and the expense of reassembling rejections shall be paid by the seller."

That shows you that it is in the opinion of the cotton men, irrespective of future contracts, a physical impossibility for a man to say that here are 100 bales of absolutely nothing but middling cotton.

Mr. HEFLIN. The difference in your contract there, then, is that it shall be paid by the seller. The testimony was, about the New York contracts, that the buyer was at the mercy of the seller.

Mr. GLENNY. That is an f. o. b. rule, that has nothing in the world to do with the future contract. It is an f. o. b. rule governing spot cotton transactions absolutely and specifically, and pertains to that cotton which is sold absolutely on the description of the seller, who has the cotton in front of him and has to class it at what must be the real grade of the cotton, yet he is permitted to ship you one-half grade below and force you to take it, and that is done, and that cotton is shipped to the Carolina mills, where Mr. Parker has his mills, and I believe he is forced, under these rules, to take cotton a half-grade up and down. As I pointed out yesterday to Mr. Hayne, a quarter grade up and down was permissible, and Mr. Parker said he would be very strict, but he is bound to take a half grade up and down.

Mr. HEFLIN. You heard me ask one of the witnesses yesterday what he thought of a contract that would allow the deliverer of cotton within three grades, a grade above and a grade below. That would not be a bad contract, would it?

Mr. GLENNY. Not for the buyer.

Mr. HEFLIN. Not for the buyer?

Mr. GLENNY. No, sir; if he could get anybody to sell it to him. It would be a strictly mill contract.

Now, Mr. Heflin, I want to say this to you, that the cotton business of the United States is mostly export business. Two-thirds of the cotton is not consumed in America, and I take it that we owe more to the man who raises the cotton in this country than we do to the man who spins one-third of it in this country.

Mr. HEFLIN. I agree with you there.

Mr. GLENNY. If we are to legislate, let us legislate on the side where we will do the most good, and not for the consumer.

Mr. HEFLIN. I am absolutely with you in that.

There is one other question in regard to that f. o. b. question. You do a good deal of that business, do you not?

Mr. GLENNY. Oh, yes; this free on board. I could give you a dozen firms.

The CHAIRMAN. Are there any other questions?

Mr. SLOAN. I would like to ask one question. Can you furnish the committee a statement of the membership of your exchange, how many of them are planters, how many are spinners, how many brokers, and others, to give this committee an understanding of the membership of your exchange?

Mr. GLENNY. Well, I can send this committee a list of our membership.

Mr. SLOAN. I mean a classification that we may know how many of them are planters, we will say, and how many are spinners, and

how many are brokers, and how many are men engaged largely in other business.

Mr. HEFLIN. I would like to have that also from the New York Exchange.

Mr. GLENNY. I will do it, with this statement, as nearly as I can. I can not say that it will be absolutely accurate.

But, I want to preface my sending of that with this statement, that it is not the purpose of an exchange—at least, it is not the purpose of the planter to belong to an exchange which he will never visit. It will hardly do a man in the western part of Arkansas much good to come to the New Orleans Cotton Exchange and own a share of stock and pay \$100 for it, and therefore the planters are in the great minority, although we have a good many of them, but they are those planters who generally come into town and live in town and go to their plantations.

Mr. HARRISON. Would you include farmers, too, the fellows who live out on the farms?

Mr. GLENNY. We have no restrictions whatever to our membership.

Mr. SLOAN. You used the term "planters" to include farmers?

Mr. HARRISON. They are different in our section. Farmers and planters are different.

Mr. GLENNY. We have interior merchants. A very large proportion of our membership is made up of interior merchants who are particularly affected by the operations of the exchange.

The CHAIRMAN. Let me suggest that we are very anxious to get these hearings in print just as soon as possible.

Mr. GLENNY. Well, I will send the committee a dozen or two dozen lists of members.

The CHAIRMAN. Yes; but we do not want to hold the printing of the record of hearings up for that. If you will furnish the information requested, and Mr. Marsh will do the same, it can be printed as an appendix and the members of the committee can have it for use on the floor of the House.

Mr. GLENNY. I would like to state to the committee that anything within the walls of the New Orleans Cotton Exchange is at their service.

The CHAIRMAN. We are very much obliged to you.

I have asked Mr. Brand, the Chief of the Division of Markets, Bureau of Plant Industry, Department of Agriculture, who is in charge of this cotton work, to appear before the committee to testify on one or two propositions, and we will be glad to hear him briefly now.

#### STATEMENT OF MR. CHARLES J. BRAND, CHIEF OF THE OFFICE OF MARKETS, DEPARTMENT OF AGRICULTURE.

Mr. BRAND. Mr. Chairman, as I have not been able to be present at the hearings, perhaps it would be better if the committee will ask me questions on the specific points on which information is desired and I will reply to them.

The CHAIRMAN. I want to ask, first of all, as to the minimum length of staple fixed in this bill, seven-eighths inch, and as to what

proportion of the cotton crop such a minimum would prevent from being delivered upon contract. In other words, what proportion of a normal cotton crop is less than seven-eighths of an inch in staple and would be undeliverable upon future contract on the exchanges under the terms of the bill? Please also tell the committee upon what facts you have arrived at your conclusion.

Mr. BRAND. Just before I left my office to-day I received a letter from one of the largest dealers of the South, whose firm handles 334,935 bales, or handled that during this present season, and in that total there were 1.81 per cent below the tenderable grades prescribed in the bill. That is as to grade. The same firm, basing its statement upon the actual delivery of that cotton, none of it having been refused, states that none of it was below seven-eighths inch in length.

Some time ago some of the men in my office made a survey of the South with a view to determining more accurately some of these points, and the method used was to go right to the big cotton merchants and ask them, first, "Will you not show us your invoices and give us this information from your shipping records themselves? Please do not give us estimates."

In almost all cases, or at least in a majority of cases, they were very courteous and examined their invoices and gave us the facts from their books. In a few cases, however, they insisted that it was too much trouble, and they merely gave us estimates.

Of these firms three reported on the basis of the Government standards, and only 2.3 per cent of a total of 197,000 bales were below the qualities prescribed in the bill.

The CHAIRMAN. How many bales was that based upon?

Mr. BRAND. In that case 197,000 bales.

The CHAIRMAN. Yes.

Mr. BRAND. The average for all of the firms, including those three who were working on Government standards—the others were working on New York and Liverpool standards—the average of the others, in spite of the fact that they were dealing with a less stringent standard, was 5.2 per cent out of a total of 2,265,000 bales.

Now, I will say, with reference to those figures, that they represent a better crop than that of the southeastern section of the United States in a normal year. I think this has been rather a better year than usual, hence those percentages are rather lower than a normal year will show.

As a result of our work in Oklahoma we found, as Mr. Marsh has pointed out since I have been in the committee room, that the crop has been an unusually bad one—I think we are justified in saying that it has been an unusually bad one—and we found that 21 per cent fell below the basis established by the bill. A similar condition prevailed in Texas.

The CHAIRMAN. That is, below low middling?

Mr. BRAND. Low middling and the other grades associated with it in the language of the bill.

Mr. GLENNY. That is nearly a quarter of the cotton raised in that district.

Mr. BRAND. One bale in five, plus 1 per cent.

The CHAIRMAN. Have you any figures showing what per cent fell below good ordinary?



Mr. BRAND. No; we have not divided it on that basis; but, of course, it would very much reduce the amount excluded from delivery if everything down to that were included.

Now, I want to say in reference to our work in Oklahoma, that our work there was carried on during the season of 1912 also, and on the basis of our actual samples of the crop—and, of course, these investigations are made merely from the investigative standpoint; we have no interest in the matter except to get the facts—and on the basis of that year, 1912, 5.08 per cent fell below the tenderable grades.

The CHAIRMAN. That was last year?

Mr. BRAND. That was 1912.

The CHAIRMAN. That was a normal year?

Mr. BRAND. That was a normal year, or, rather, an abnormal year; perhaps it was a trifle better than usual. I think it safe to say that from 10 to 12 per cent will represent an average proportion of the crop undeliverable under the conditions imposed by the bill.

The CHAIRMAN. Throughout the United States, do you mean?

Mr. BRAND. Throughout the United States.

The CHAIRMAN. What per cent do you think, Mr. Brand, would fall below the grade of strict good ordinary?

Mr. BRAND. Mr. Chairman, if you do not mind, I will not make a guess as to that, because we have the figures as to those grades, and we can work it out and submit it to the committee later, so that you can put it in the record if you desire; but I do not think we will be accomplishing anything by guessing at it.

The CHAIRMAN. Not at all. I am glad that you do not want to guess at it.

Mr. BRAND. Because we have the data available at the office to form a basis from which to work up that information.

The CHAIRMAN. If you can get that information for the committee by Monday noon we can put it in the record, and I think it will be very valuable.

Mr. BRAND. I will do so, Mr. Chairman.

The CHAIRMAN. And you can furnish the information as to good ordinary also?

Mr. BRAND. Yes, sir; we can do that as to both strict good ordinary and good ordinary.

(The statement referred to is as follows:)

UNITED STATES DEPARTMENT OF AGRICULTURE,  
OFFICE OF MARKETS,  
Washington, D. C., April 27, 1914.

HON. A. F. LEVER,

*Chairman, Committee on Agriculture,  
House of Representatives.*

DEAR MR. LEVER: In accordance with my promise to the Committee on Agriculture on Saturday afternoon, I am sending you herewith statements which indicate the probable amount of cotton that would be eliminated from delivery on contracts were a strict-good-ordinary clause or a good-ordinary clause inserted instead of the low-middling clause in the fifth section of H. R. 15318.

In order to bring the figures based on the low-middling clause up to date, I am annexing hereto in Table I a statement summarizing all figures received to date, including those that I gave the committee orally on the 25th.

The following summarized statement, corrected to date, shows the total quantity of cotton handled by firms furnishing information in the Southeast, and the number of bales and percentage that would be excluded under a low-middling clause. (Chiefly Liverpool and New York standards used.)

TABLE I.

	Total business.	Below low middling, strict low middling, tinged, and middling stained.	Shorter than $\frac{3}{8}$ inch.
Alabama.....	Bales. 434,912	Bales. 11,024	Bales. 0
Georgia.....	1,394,656	79,748	16,300
South Carolina.....	370,641	15,788	( <sup>1</sup> ) 0
North Carolina.....	344,935	6,268	0
Virginia:			
For grade.....	65,000	9,750	0
For staple.....	425,000	.....	0
Total for 5 States:			
For grade.....	2,610,144	122,578	.....
For staple.....	2,970,144	.....	17,000

<sup>1</sup> Estimated.<sup>2</sup> Not over 850.

Percentage of low grades, 4.7 per cent.

Percentage of short grades (under  $\frac{3}{8}$  inch), 0.204 per cent.

In obtaining the information for the special report on low grades and short staples in the Southeast no effort was made to secure data based on strict good ordinary or good-ordinary limits. Three firms, however, opened their books to us and gave exact information as to the number of bales of each grade shipped by them during the current season. The total number of bales handled by these firms was 442,620, which was composed of the following proportions of the various grades as shown in the following table:

TABLE II.—Detailed statement based on Liverpool standard as to the various grades shipped by three selected firms in the Southeastern United States.

	Total bales of each grade.	Percentage of bales of each grade.
Barely middling fair.....	1,644	0.37
Fully good middling.....	62,563	14.13
Good middling.....	118,371	26.61
Fully middling.....	81,357	18.35
Middling.....	54,211	12.02
Fully low middling.....	39,366	8.89
Low middling.....	17,273	3.89
Fully good ordinary.....	4,687	1.05
Good ordinary.....	1,588	.35
Fully good middling tinged.....	1,50	.011
Good middling tinged.....	12,647	2.85
Fully middling tinged.....	21,946	4.95
Middling tinged.....	16,231	3.64
Fully low middling tinged.....	5,668	1.26
Low middling tinged.....	3	Trace
Fully middling stained.....	8,373	1.89
Middling stained.....	2,537	.57
Low middling stained.....	113	.03
	442,620	99.7—

A study of this table, which, it must be remembered, is based on the total business of only three firms, amounting to almost 445,000 bales, indicates that were good ordinary placed as the lower limit of delivery no cotton in the Southeast would have been excluded by such a requirement in the contract, and that had strict good ordinary been made the lower limit only about 0.35 per cent would have been denied the privilege of delivery.

Undoubtedly a small percentage of cotton would still be excluded, but as I pointed out to the committee, the conditions have been unusually good in the Southeast this year, and this finding agrees measurably with the observation from Col. Hester's telegram, which Mr. Glenny read to the committee, which stated that the average grade reported from Wilmington, N. C., was barely middling, while Savannah reported for its tributary district an average of middling to fully middling. The sum and substance of this is that in such a year as 1913 the quantity excluded is negligible.

In the market survey campaign, which has been conducted by the Office of Markets for the 1913 crop, sampling was conducted in all of the cotton States. The amount of work, however, was so great that the data are not yet complete, even from the States reported in the appended table.

TABLE III.—Statement showing bales of cotton below good ordinary, low middling tinged, middling stained, and seven-eighths inch staple.

State.	Number of sampling points.	Number of bales sampled.	Sampled bales below standard.				State's crop (bales).	
			Account of grade.	Account of staple.	Total. <sup>1</sup>	Percentage.	Below standard.	Total.
North Carolina.....	4	1,879	200	160	314	16.711	139,610	835,435
South Carolina.....	7	4,995	523	378	822	16.456	232,755	1,414,409
Arkansas.....	10	3,661	473	393	790	19.667	203,917	1,036,849
Texas.....	7	2,001	283	51	333	16.142	608,759	3,771,271
Oklahoma.....	17	4,652	424	21	427	9.179	77,273	841,844
Summary.....	45	17,188	1,902	1,008	2,606	15.979	1,282,314	7,890,806

<sup>1</sup> Some bales are below the above standard on account of both grade and staple; thus the total is not an addition of the two preceding columns.

The facts, so far as they have been worked up, are given for North Carolina, South Carolina, Arkansas, Texas, and Oklahoma with reference to the 1913 crop. The table is self-explanatory, but it may be said that the sampling in all of the markets was deliberately planned to reflect as accurately as possible the proportion of the various grades marketed through the season at each of the primary markets where sampling was conducted. The figures of the Bureau of Census were used for the total crop, and the percentage secured from the market survey work is then applied to this total in order to determine the grand total number of bales that would fall below the good ordinary, low middling tinged, middling stained, and  $\frac{7}{8}$ -inch staple requirements.

In Table IV, utilizing the same data and the same methods, the estimated number of bales and percentage that would fall below the strict good ordinary, low middling tinged, middling stained, and  $\frac{7}{8}$ -inch staple requirements are shown:

TABLE IV.—Statement showing bales of cotton below strict good ordinary, low middling tinged, middling stained, and  $\frac{7}{8}$ -inch staple.

State.	Number of sampling points.	Number of bales sampled.	Sampled bales below standard.				State's crop (bales)	
			Account of grade.	Account of staple.	Total. <sup>1</sup>	Percentage.	Below standard.	Total.
North Carolina.....	4	1,879	205	160	319	16.977	141,831	835,435
South Carolina.....	7	4,995	528	378	827	16.557	224,184	1,414,409
Arkansas.....	10	3,661	483	393	733	20.022	207,598	1,036,849
Texas.....	7	2,001	403	51	443	22.139	834,922	3,771,211
Oklahoma.....	17	4,652	579	21	682	12.510	105,315	841,844
Summary.....	45	17,188	2,193	1,008	2,604	19.260	1,523,860	7,890,806

<sup>1</sup> Some bales are below the above standard on account of both grade and staple; thus the total is not an addition of the two preceding columns.

In Table V are shown the totals and percentages of untenderable bales that would result from an application of the act as it appears in its present printed form. In other words, including three States that had extraordinarily bad crop conditions and only two in which good conditions prevailed, the percentage untenderable is only something over 25 per cent. As a matter of fact, it is probably true that not more than from 10 per cent to 15 per cent would be excluded and it seems wholly fair that this small proportion of the crop should not in any way be allowed to depress the price of the whole.

TABLE V.—*Statement showing bales of cotton below proposed tenderable standard as outlined in "Cotton-futures act" (H. R. 15518),*

State.	Number of sampling points.	Number of bales sampled.	Sampled bales below proposed tenderable standard.				State's crop (bales).	
			Account of grade.	Account of staple.	Total. <sup>1</sup>	Percentage.	Below proposed tenderable standard.	Total.
North Carolina.....	4	1,879	286	160	365	19.425	162,233	835,425
South Carolina.....	7	4,996	609	378	893	17.878	252,868	1,414,409
Arkansas.....	10	3,661	726	393	958	26.168	271,323	1,036,849
Texas.....	7	2,001	589	61	620	30.965	1,168,528	3,771,271
Oklahoma.....	17	4,652	1,003	21	1,006	21.625	182,049	841,844
Summary.....	45	17,188	3,193	1,003	3,842	25.913	2,047,051	7,899,806
Oklahoma, 1912.....	94	2,816	129	22	143	5.08	51,060	1,006,109

<sup>1</sup> Some bales are below the proposed standard on account of both grade and staple; thus the total is not an addition of the two preceding columns.

It is only fair to state with reference to the Texas figures in Tables 3, 4, and 5, that sampling in Texas began later in the season than in the other States. Storms of a destructive character occurred frequently during the autumn, hence our figures emphasize the low grade end of the crop, to the exclusion of the earlier part which was of higher grade. Furthermore, to determine what treatment the farmer was receiving in the sale of his lower grades a number of special samplings in the late season are included in the totals. There is every reason to believe that the true percentage for Texas would be practically the same as that for Oklahoma had the sampling in both States been simultaneous throughout the season.

Very respectfully,

CHARLES J. BRAND,  
Chief, Office of Markets.

The CHAIRMAN. Mr. Brand, did you discuss the length of staple under the bill—my attention was diverted for a moment?

Mr. BRAND. Yes.

The CHAIRMAN. What proportion did you say would be untenderable under the bill?

Mr. BRAND. Well, it varied in the various markets, and it was very low. And I might say, in reference to South Carolina, that Marlboro County has frequently been held up as producing a very short staple. It so happened that in 1912 we were carrying on there studies in the storage of staple seed cotton. Our investigator was instructed, in addition, to get throughout the season random samples of cotton offered as short staple—offered in the Bennettsville market. In that way somewhere in the neighborhood of 600 or 700 bales were actually sampled by our representative, and in order to have some definite information on that point, we have graded and stapled all of the bales that were sampled during the season of 1912; and it was found that 13.3 per cent fell below grade. This sampling, as I remember it, ran from October to February, so that there would be

some late cotton not included in it. But it turned off very wet toward the end of the season; so we got a great many "Marlboro blue," as they are called; but still in was only 13.3 per cent, as shown by those samples. And as to staple, I may say that only 1.81 per cent was less than seven-eighths inch in length.

The CHAIRMAN. I am very glad to hear that, because it does not agree with the testimony we have had before the committee from other gentlemen by any means.

Mr. BRAND. Of course, I have not seen that testimony.

The CHAIRMAN. Yes; I take it that you have not; and I take it that your figures are based upon very accurate tests.

Mr. BRAND. Yes. It is decidedly unusual to pull the staple of short cotton in ordinary marketing; but in our market-survey work we pull the staple of every bale that is sampled.

The CHAIRMAN. Are there any other questions?

Mr. GLENNY. I would just like to put this in the record, in reference to the grading of cotton. Here is a telegram sent me by Mr. H. G. Hester, who is the secretary of the New Orleans Cotton Exchange:

Referring to my previous telegram in reference to this year's crop, Galveston and Houston report the average grade of the Texas crop low middling to strict low middling. Memphis, St. Louis, and Mobile report average for their tributary district strict low middling. The New Orleans district averages barely strict low middling. Wilmington reports for North Carolina barely middling, and Savannah reports for their tributary district an average of middling to fully middling.

The CHAIRMAN. Are there any further questions, gentlemen? I asked Mr. Brand to come here and discuss this staple and grade proposition.

Mr. HAWLEY. You made those tests yourself, did you, Mr. Brand?

Mr. BRAND. Yes; that is, I did not make them myself personally; my men have done it, and—

Mr. HAWLEY. You worked with them?

Mr. BRAND. Yes; I worked with them.

Mr. GLENNY. Mr. Chairman, I have another telegram which I should like to offer. Shall I read it or just file it with the committee?

The CHAIRMAN. Without objection, it can be incorporated in the record without reading it.

Mr. GLENNY. It is from Mr. Thompson, on the subject of quarter grades. He does a very large factoring business in New Orleans. This telegram shows the great harm that would be done through the elimination of the quarter grades. I also have several other telegrams here.

The CHAIRMAN. If there is no objection, all those telegrams may be made a part of the record.

Mr. GLENNY. Yes; I do not want to detain the committee by reading them.

(The telegrams referred to are as follows:)

NEW ORLEANS, LA., April 23, 1914.

EL. J. GLENNY,

*New Willard Hotel, Washington, D. C.:*

Morning papers report evidence before Committee on Agriculture favoring elimination of quarter grades. In my opinion this elimination would be a serious mistake and would not only entail a severe loss on the deliverer whose cotton was shy of the price unit, but by injecting into the delivery of cotton on

contract an element of uncertainty and loss would not only impair the utility of the contract to the trade, but would make it more highly speculative and more susceptible to the fundamental principle. Point to be kept in view is that the deliverer shall receive and the receiver pay for deliveries the actual relative value of the cotton delivered, and not an arbitrary value which may be above or below its actual value. Any arbitrary stipulations which qualify this fundamental principle work for the advantage of the operator on the one or the other side of the market, who wants to use the machinery of the contract market for the purpose of securing a technical advantage over his opponents, and to the great disadvantage of the bona fide trader, who is benefited by protesting and hurt by uncertainty and manipulation. In order to hold true to the fundamental principle aforesaid it is my firm conviction that the quarter grades should be retained, because the difference in value between the full half grades is so great that the uncertainty of the price outcome becomes material and to that extent prohibitive of free use of the contract by the trade.

W. B. THOMPSON.

NEW ORLEANS, LA., April 24, 1914.

EL. J. GLENNY,

*New Willard Hotel, Washington, D. C.:*

Press dispatches state that it has been reported to Committee on Agriculture that quarter grades are not traded in. This is an error. They are not used as much as the half grades, but it is not unusual for exporters and eastern shippers to do business in quarter grades. My own experience is that there is a growing tendency to use quarter grades.

W. P. STEWART.

NEW ORLEANS, LA., April 23.

EL. J. GLENNY,

*New Willard, Washington, D. C.:*

The section calling for a minimum of seven-eighths inch staple will eliminate a large proportion of upland staple, particularly in a dry season when such cotton runs from five-eighths to seven-eighths of an inch and is considered and accepted as commercial good staple.

CHAS. A. FRANCIS,

JULES A. MAZERAT,

*Appeal Committee on Classification.*

The CHAIRMAN. If there are no further questions for Mr. Brand, we will excuse him. We are very much obliged to you, Mr. Brand.

Gentlemen of the committee, it is my usual custom, when we are about to consider a bill, to send it to the Department of Agriculture and ask them to give me a report upon it showing the attitude of the department upon the matter. In this case, I have followed my custom. I sent House bill 8192, Senate bill 110, and House bill 15318 to the Secretary of Agriculture and asked him to submit to me the views of the department, first, as to the constitutionality of the respective bills; second, assuming their constitutionality, their respective effectiveness in reaching the situation desired to be reached.

That report came to me late yesterday evening. I have not yet finished reading it myself, I may say. I think it is valuable and should go into the record; and if there is no objection I will ask that it be printed as a part of the record.

Mr. HAUGEN. Mr. Chairman, I would like to suggest that you also call for a report from the department on your bill (H. R. 14492).

The CHAIRMAN. That is partially reported upon in this letter from the Secretary; but I will get a full report on it; and I may say in this connection that on Monday morning I will send for reports on all the grain bills, so that by the time the testimony is in you may have them.

## STATEMENT OF THE SECRETARY OF AGRICULTURE.

DEPARTMENT OF AGRICULTURE,  
Washington, April 23, 1914.

Hon. A. F. LEVER,  
*Chairman Committee on Agriculture,  
House of Representatives.*

DEAR MR. LEVER: In response to the request contained in your letter of the 6th instant, there is submitted herewith a report giving the views of this department on the constitutionality of three bills pending before your committee, designated as H. R. 8192, S. 110, and H. R. 15318, and on the comparative effectiveness of these bills to eliminate the abuses connected with dealings in cotton futures.

H. R. 8192.

## SUMMARY OF PROVISIONS.

Section 1 defines certain terms used in the bill.

Section 2, as interpreted by section 1, makes it unlawful for any person, partnership, joint-stock company, society, association, or corporation, their managers and officers, to send, or cause to be sent, by telegraph, telephone, wireless telegraph, cable, or other means of communication from one State or Territory of the United States or the District of Columbia, to any other State or Territory of the United States or the District of Columbia, or to any foreign country, any communication either offering to make or enter into a contract for the purchase or sale for future delivery of cotton without intending that such cotton shall be actually delivered or received, or offering to make or enter into a contract whereby any party thereto, or any party for whom or in whose behalf such contract is made, acquires the right or privilege to demand in the future the acceptance or delivery of cotton without being thereby obligated to accept or to deliver such cotton. Penalties are attached for violation of this provision.

Section 3 requires the person sending the message to furnish to the person transmitting the same an affidavit regarding the sender's intention as to actual delivery or acceptance of the cotton. Penalties are attached for knowingly making a false statement in any such affidavit. It is also provided that proof of failure to make such affidavit shall be prima facie evidence that the message related to a contract prohibited by section 2, and that proof of failure to deliver or receive the cotton called for under the contract shall be prima facie evidence that there was no intention to deliver or receive such cotton when the contract was made.

Section 4 authorizes agents of telegraph, telephone, wireless telegraph, and cable companies to administer oaths required by the bill.

Section 5 prohibits any owner or operator of any telegraph or telephone line, wireless telegraph, cable, or other means of communication, and any officer, agent, or employee of such owner or operator from knowingly transmitting or allowing to be transmitted any message relating to the contracts described in section 2, and penalizes such offenses.

Section 6 declares certain printed and written matter tending to induce or promote the making of contracts described in section 2 to be nonmailable and prohibits, under penalty, anyone from knowingly mailing any such matter.

Section 7 authorizes the Postmaster General to instruct postmasters in post offices at which any mail matter declared by section 6 to be nonmailable is received to return the same to the sender.

Section 8 grants immunity from prosecution to any person called upon to testify regarding violations of the act.

## CONSTITUTIONALITY.

This bill is framed under the commerce clause and the post-office and post-roads clause (Art. I, sec. 8) of the Constitution.

The principal section prohibits the sending from one State or Territory or the District of Columbia to another State or Territory or the District of Columbia or to a foreign country of certain classes of communications by telegraph or telephone. The classes of communications affected are: (1) Offers to enter into contracts for the purchase or sale of cotton for future delivery without intending that it shall be actually received or delivered; and (2)

offers to enter into contracts whereby any party thereto, or any party for whom or in whose behalf such contracts are made, acquires the right or privilege to demand in the future the acceptance or delivery of cotton without being thereby obligated to deliver or to accept the same.

The first class involves those future contracts, respecting which the parties do not intend that the article shall be delivered, but usually intend, instead, that the transaction shall be settled by paying the difference between the contract and the market price. The second class comprises options to buy or sell at a future date. Both are essentially gambling transactions and are void as against public policy. (*Clews v. Jamieson*, 182 U. S., 461; *White v. Barber*, 123, U. S., 392.)

Thus, what is prohibited by section 2 of the bill is the sending by telegraph or telephone from one State or Territory or the District of Columbia to another State or Territory or the District of Columbia or to a foreign country of proposals to enter into gambling transactions. The question is whether Congress has authority to enact this prohibition.

Intercourse by telegraph or telephone between one State, Territory, or District of the United States and another State, Territory, or District of the United States or a foreign country is interstate or foreign commerce and is, therefore, subject to regulation by Congress under the commerce clause of the Constitution. (*Pensacola Telegraph Co. v. Western Union Telegraph Co.*, 96 U. S., 1; *Telegraph Co. v. Texas*, 105 U. S., 460; *Western Union Telegraph Co. v. Pendleton*, 122 U. S., 347; *Muskogee National Telephone Co. v. Hall*, 118 Fed., 882.)

It has been held to be within the power of Congress, under the commerce clause, to prohibit the interstate shipment or transportation of articles deemed injurious to the morals or health of the people, such as lottery tickets, remedies, for the prevention of conception, adulterated foods and drugs, etc. (*Lottory Case*, 188 U. S., 321; *United States v. Popper*, 98 Fed., 423; *Hipolite Egg Co. v. United States*, 220 U. S., 45; *Shawnee Milling Co. v. Temple*, 179 Fed., 517; see also *Hoke v. United States*, 227 U. S., 308, and *Wilson v. United States*, 232 U. S., 563.) Likewise, it would seem to be within the power of Congress to prohibit the sending or transmission from one State to another by telegraph or telephone of messages which are injurious to the morals of the people, because in furtherance of gambling contracts. The analogy here drawn was indicated in *Telegraph Co. v. Texas* (105 U. S., 464), wherein the court said that—

“A telegraph company occupies the same relation to commerce as a carrier of messages that a railroad company does as a carrier of goods.”

Under the bill as drawn the prohibition in section 2 extends to the sending of messages by telegraph, telephone, wireless telegraph, cable, and other means of communication. It is not clear just what the phrase “other means of communication” would include. Under the rule of *ejusdem generis* it would probably be construed as confined to any possible agencies of communication other than those specifically mentioned, which are based on or which apply the scientific principles of the telegraph and telephone. But if the phrase be held to include such means of communication as railroads and boats, which carry corporeal objects, instead of intangible messages, there is at least a doubt as to the validity of the proposed legislation when applied to such other means of communication. This doubt arises primarily out of certain statements of the United States Supreme Court in *Paul v. Virginia* (8 Wall., 168) and cases following it.

It is firmly established that contracts of insurance are not transactions of interstate commerce, which are subject to regulation by Congress under the commerce clause of the Constitution. (*Paul v. Virginia*, 8 Wall., 168; *Hooper v. California*, 155 U. S., 648; *New York Life Insurance Co. v. Cravens*, 178 U. S., 389.) Likewise, contracts for the sale of an article for future delivery are not, in themselves, transactions of interstate commerce if they do not oblige the transportation of anything from one State, Territory, or District to another State, Territory, or District of the United States. (*Ware & Leland v. Mobile County*, 209 U. S., 405.) However, in *Paul v. Virginia* (8 Wall., 183) the court, in the course of its opinion, goes further than to hold that the contracts involved were not in themselves transactions of interstate commerce, and says:

“These contracts are not articles of commerce in any proper meaning of the word. They are not subjects of trade and barter offered in the market as some-



thing having an existence and value independent of the parties to them. They are not commodities to be shipped or forwarded from one State to another and then put up for sale."

Because of what has been held in the cases referred to, and particularly because of what was said in the extract just quoted, there is some doubt as to whether the Supreme Court would hold that, under the commerce clause, Congress is empowered to regulate the physical transportation of a written or printed contract or offer to make such contract, which is not itself the subject of interstate commerce.

On the other hand, if the holdings that the interstate transportation of lottery tickets and of instruction by correspondence, and the interstate transmission of messages by telegraph and telephone are subject to regulation by Congress (*Lottery Case*, supra; *Int. Text Book Co. v. Pigg*, 217 U. S., 91), are adhered to, on principle it is not perceived why written or printed contracts or offers to make contracts transported interstate must not also be held to be subjects of interstate commerce.

The provisions in section 3 of the bill making proof of failure to make the affidavit required thereby prima facie evidence that the message related to a contract prohibited by section 2, and making proof of failure to deliver or receive the cotton called for in the contract prima facie evidence that there was no intention to deliver or receive such cotton when the contract was made, seem to be authorized and not to infringe any constitutional right. (*Mobile, etc., Co. v. Turnipseed*, 219 U. S., 35; *Adams v. New York*, 192 U. S., 585.)

Section 6 of the bill relating to the use of the mails appears to be valid under the authorities cited and discussed in connection with S. 110.

The provisions of section 7, giving the Postmaster General power to cause the return to the sender of certain mail matter, seem to be authorized in view of the decision in *Public Clearing House v. Coyne*. (194 U. S., 497.)

#### EFFECTIVENESS.

It is commonly recognized that there are certain evil features arising out of future dealings on cotton exchanges as at present conducted. In order to correct the evils it is necessary, in some manner, to regulate these transactions. The fundamental test of the effectiveness of a bill designed to correct such evils is its ability to reach the class of transactions which require to be regulated.

As pointed out above, the bill in question touches only two classes of transactions: First, cases in which the parties do not intend that any cotton shall be delivered or received under their contracts; second, options to sell or buy, commonly known as "puts" and "calls." Both are, in their nature, gambling contracts. They are almost universally illegal under the laws of the various States.

The future transactions usually conducted on cotton exchanges do not, at least on their faces, belong to either of the classes described in the bill, but are prima facie lawful contracts. Generally, such transactions are definite agreements on the part of one party to deliver to another party, who, in turn, agrees to receive a certain quantity of cotton within a fixed period of time at a fixed price. The obligations to deliver and receive the cotton are legally binding. It is doubtless true that a large portion of these dealings are undertaken by persons who have no direct interest in either the production or the distribution of cotton. Doubtless, also, a large proportion of the buyers of these future contracts do not desire the delivery of actual cotton, and a large proportion of the sellers do not contemplate making physical delivery. Such a buyer, instead of receiving the actual cotton, sells out the contract before it has matured to another party, and merely gains or loses the difference between its cost and its selling price. In this way the contract may be sold or assigned many times before it reaches maturity. However, at the stated time of delivery, the ultimate purchaser is obligated to receive actual cotton. In practice, such delivery is usually made by means of so-called "set-offs" or "ring" settlements, which the Supreme Court has expressly declared to be legally effective for the purpose. (*Board of Trade v. Christie Grain & Stock Co.*, 193 U. S., 236.)

In order to bring one of these cotton-future contracts within the first class of transactions described in the bill, it would be necessary to show, by evidence outside the contract, that a party thereto did not intend that any cotton should be delivered thereunder. However, in view of the binding obligations on the parties to deliver and receive actual cotton, under the usual future contract entered into on cotton exchanges, and of the fact that cotton is eventu-

ally delivered to the ultimate purchaser, it would seem, in such cases, to be practically impossible to show conclusively an original intention of either of the parties not to deliver or receive actual cotton.

The usual future contracts entered into on cotton exchanges are so dissimilar in their nature to "puts" and "calls" that they could in no sense be brought within the second class of transactions described in the bill.

In certain instances, there may be carried on transactions of one of the classes described in the bill, which would be reached by it if one of the parties conducted his negotiations by interstate telegraph or telephone service. But the bill would, in general, be ineffective, since it fails to reach the future transactions on exchanges that give rise to the recognized evils which it is desired to correct.

It is believed that certain forms of dealings in cotton for future delivery, commonly called "hedgies," if properly conducted, serve an important and useful economic function. For instance, "hedgies" obviate the necessity of speculation by spinners as to the price of cotton needed by them to fulfill contracts of sale of goods to be manufactured from cotton running over long periods. It is unquestionably true that certain ills have crept into the system of conducting transactions in cotton futures, which, as more fully pointed out in the discussion of H. R. 15318, injuriously affect the public interest. But it is these ills which it is desired to destroy; it is not essential or desirable completely to destroy the business of dealing in futures.

#### S. 110.

#### SUMMARY OF PROVISIONS.

Section 1 of the bill prohibits any person, firm, joint-stock company, society, association, or corporation, their managers or officers, who are members of any exchange, society, corporation, or association, in which or through which any contracts for the future delivery of cotton are made, from sending through the United States mail any letter, document, pamphlet, or other matter in the promotion or furtherance of the making or enforcing of such contracts, unless such exchange, society, corporation, or association shall require all such contracts to comply with certain specified conditions. The chief conditions specified are the insertion of provisions in the contract requiring the cotton dealt with therein to be within certain grade limits established by the Secretary of Agriculture, and provisions governing the settlement of differences in case cotton other than the basis grade is delivered.

Section 2 makes it the duty of the Secretary of Agriculture to standardize separately the grades of upland and gulf cotton.

Section 3 provides that in case of long staple cotton, the length of staple shall be designated in the contract and the cotton shall be, when delivered, of the grade and length of staple designated.

Section 4 prohibits any person or corporation from sending through the mails or over the telegraph wires any price lists of sales of cotton in any cotton exchange engaged in selling futures which does not use a contract for future delivery of cotton in accordance with the provisions of the bill.

Section 5 grants immunity from prosecution to persons called upon to testify regarding violations of the act.

Section 6 prescribes penalties for certain violations of the act.

#### CONSTITUTIONALITY.

The bill is framed primarily under the post office and post roads clause of the Constitution, and altogether so except a part of section 4, which is based on the commerce clause.

The principal section of the bill prohibits members of exchanges in which or through which contracts for future delivery of cotton are made from sending through the United States mail any mail matter in promotion or furtherance of the making or enforcement of such contracts, unless such exchange requires the contracts to comply with certain conditions. The bill takes cognizance of the fact that there are certain evil features arising out of future dealings on cotton exchanges as at present conducted. It appears to be framed on the theory that if the contracts comply with the conditions specified in the bill, the evil features will be eliminated; but that if such conditions are not complied

with, these evil features are likely to be retained. The first question to consider, therefore, is whether Congress has the right to exclude from the mails printed or written matter promotive of a class of dealings which it deems may be injurious to the public welfare.

The power of Congress to exclude from the mails all matter concerning lotteries and fraudulent schemes has been sustained by the United States Supreme Court. (Ex parte Jackson, 96 U. S., 727; In re Rapier, 143 U. S., 110; Horner v. U. S., 143 U. S., 571.)

In *Hoover v. McChesney* (81 Fed., 472, 480) it is stated that what the Supreme Court has sustained in these cases is the exercise of a so-called police power of excluding from the mails that which may be declared immoral or injurious to the morals of the people of the several States. However, it does not appear that Congress, in the exercise of its power over the Postal Service, is limited to the exclusion of matter deemed immoral or injurious to the morals of the people. Its power rests on broader ground.

In *Ex parte Jackson*, supra, the court says:

"The power possessed by Congress embraces the regulation of the entire postal system of the country. The right to designate what shall be carried necessarily involves the right to determine what shall be excluded."

In *Public Clearing House v. Coyne* (194 U. S., 497, 506) the court states:

"The legislative body in thus establishing a postal service may annex such conditions to it as it chooses."

\* \* \* \* \*

"In establishing such system Congress may restrict its use to letters and deny it to periodicals; it may include periodicals, and exclude books; it may admit books to the mails and refuse to admit merchandise, or it may include all of these and fail to embrace within its regulation telegrams or large parcels of merchandise, although in most civilized countries of Europe these are also made a part of the postal service. It may also refuse to include in its mails such printed matter or merchandise as may seem objectionable to it upon the ground of public policy, as dangerous to its employees or injurious to other mail matter carried in the same packages. The postal regulations of this country, issued in pursuance of act of Congress, contain a long list of prohibited articles dangerous in their nature, or to other articles with which they may come in contact, such, for instance, as liquids, poisons, explosives and inflammable articles, fatty substances, or live or dead animals, and substances which exhale a bad odor. It has never been supposed that the exclusion of these articles denied to their owners any of their constitutional rights."

Within the extent of this broad power, it rests with Congress to determine, in its discretion, how such power shall be exercised. (In re Rapier, 143 U. S., 134.)

It is believed, therefore, that if Congress deems a certain class of contracts or dealings injurious to the public welfare, it is authorized, whether in the exercise of its so-called police power over the Postal Service or of its broader powers as recognized by courts, to exclude from the mails any matter which tends to promote the making or enforcement of such contracts or dealings, unless they meet certain requirements calculated to eliminate the injurious features.

The next question is whether it is within the authority of Congress to deny the use of the mails for the transmission of such matter to members of exchanges, without denying their use for the same purposes to other persons or classes of citizens.

In *Hoover v. McChesney* (81 Fed., 472, 480) it is stated:

"We think the right to the use of the mails \* \* \* would be equally a property right, and one which could not be taken away except by due process of law."

In *Missouri Drug Co. v. Wyman* (129 Fed., 623) and *People's U. S. Bank v. Gilson* (140 Fed., 1) such right to use the mails is referred to as a "privilege," instead of a "property right."

It is doubtful whether Congress could, arbitrarily and without any reasonable basis, deny the use of the mails for any purpose to one portion of the citizens of this country and allow its use for the same purpose to the remainder of the citizens. Such an enactment might constitute class legislation, in violation of the due process clause of the fifth amendment to the Constitution. This precise question, however, does not seem to have been passed upon by the courts.

In *Public Clearing House v. Coyne*, supra, the court upheld the constitutionality of a statute which authorized the Postmaster General to seize and re-

turn to the sender all letters addressed to a particular person, firm, or corporation which he was satisfied was using the mails for fraudulent purposes. In discussing the question, the court said:

"While it may be assumed, for the purpose of this case, that Congress would have no right to extend to one the benefit of its postal service and deny it to another person in the same class and standing in the same relation to the Government, it does not follow that under its power to classify mailable matter, applying different rates of postage to different articles and prohibiting some altogether, it may not also classify the recipients of such matter and forbid the delivery of letters to such persons or corporations as in its judgment are making use of the mails for the purpose of fraud or deception or the dissemination among its citizens of information of a character calculated to debauch the public morality."

In *Lewis Publishing Co. v. Morgan* (229 U. S., 288, 300, 313, 316) it is said:

"Broadly stated, all the contentions of the Government are reducible to the following: \* \* \* (c) That even if these propositions be not well founded and the provision be given the significance attributed to it by the publishers, nevertheless it is valid as an exertion by Congress of its power to establish post offices and post roads, a power which conveys an absolute right of legislative selection as to what shall be carried in the mails and which, therefore, is not in any wise subject to judicial control, even although in a given case it may be manifest that a particular exclusion is but arbitrary, because resting on no discernible distinction nor coming within any discoverable principle of justice or public policy. \* \* \*

"That Congress, in exerting its power concerning the mails, has the comprehensive right to classify which it has exerted from the beginning, and therefore may exercise its discretion for the purpose of furthering the public welfare as it understands it, we think it too clear for anything but statement; the exertion of the power, of course, at all times and under all conditions, being subject to the express or necessarily implied limitations of the Constitution. \* \* \*

"Finally, because there is developed no necessity of passing upon the question, we do not wish, even by the remotest implication, to be regarded as assenting to the broad contentions concerning the existence of arbitrary power through the classification of the mails, or by way of condition embodied in the proposition of the Government which we have previously stated."

Further, in *Warren v. United States* (183 Fed., 718, 720) the court states:

"The unrestricted use of the mails is not one of the fundamental rights guaranteed by the Constitution. \* \* \* Its (Congress's) power over the particular subject is almost without limit, except as respects unreasonable searches and seizures and the duty to treat all alike under the same circumstances and conditions."

In exercising powers other than its power over the Postal Service Congress has seen fit to discriminate with respect to classes of citizens. These discriminations, if not purely arbitrary, but based upon reasonable grounds, have been upheld by the courts as against the claim that the constitutional rights of citizens with respect to their liberty and property were being invaded. There are many instances of this nature, the chief ones being cases in which the United States or a State has taxed certain classes of citizens without similarly taxing other classes. (*Flint v. Stone Tracy Co.*, 220 U. S., 107; *Bell's Gap R. R. Co. v. Pennsylvania*, 134 U. S., 232; *Citizens' Telephone Co. v. Fuller*, 229 U. S., 322.)

It will be noted that in the *Coyne* case there was a discrimination made by the statute as to the recipients of mail matter, in denying its receipt to a certain class without denying it to other classes. This was upheld as a reasonable discrimination under the circumstances, calculated to exclude certain fraudulent matter from the mails. It may be also that a provision prohibiting a certain class of persons from sending specified matter in the mails would likewise be upheld if the discrimination be reasonable and suited to the circumstances of the situation.

The contracts which give rise to the evil features against which the bill in question is aimed are in general carried on and regulated by members of the exchanges. The members of these exchanges occupy a peculiar and distinct position with respect to the making of these contracts. It may be that, in order to exclude from the mails matter relating to such contracts, it is only necessary to prohibit these members from using the mails for such purpose, unless they conform their contracts to certain requirements calculated to elimi-

uate the objectionable features. Although somewhat questionable, it is possible that the provision would be sustained by the Supreme Court.

Section 4 of the bill prohibits any person from using the mails or telegraph lines for sending price lists of sales of cotton in any cotton exchange engaged in selling futures which does not use a contract in accordance with the provisions of the bill.

As applied to the use of the mails, this provision seems to be valid for the reasons set forth above.

However, with respect to the use of the telegraph, the provision in section 4 seems to be invalid in so far as it applies to purely intrastate messages over lines not owned by or operated as agencies or under authority of the Federal Government.

As applied to interstate messages, there is some doubt as to the validity of this telegraph provision, but it might be sustained as a valid regulation of interstate commerce for the reasons set forth in the preceding discussion of H. R. 8192.

H. R. 8192 deals only with the exclusion from interstate telegraph and telephone service of messages relating to purely gambling transactions. The provision here in question goes further than those regulations of commerce, in the form of specified prohibitions, which have been upheld by the courts, such as the transportation of lottery tickets, of remedies for the prevention of conception and of adulterated or misbranded foods and drugs, which are in themselves hurtful to the morals or health of the people. The price lists affected and the transactions on which they are based are not in themselves necessarily illegal, and possibly are not injurious to the public morals. There is ground for contending, however, that inasmuch as these lists, based on transactions failing to comply with the conditions specified in the bill, do not correctly represent the values which they assume to represent, their circulation as such among the people who rely upon them is injurious to the public welfare, and possibly, in a sense, to the public morals.

The power of Congress over interstate commerce is—"plenary, complete in itself, and may be exerted by Congress to its utmost extent, subject only to such limitations as the Constitution imposes upon the exercise of the powers granted by it, and that in determining the character of the regulations to be adopted Congress has a large discretion which is not to be controlled by the courts, simply because, in their opinion, such regulations may not be the best or most effective that could be employed." (Lotter case, 188 U. S., 353.)

If Congress in the exercise of its discretion declares in effect upon apparently reasonable grounds that the circulation of certain matter is injurious to the public welfare, or possibly to the public morals, and prohibits its transportation through an agency of interstate commerce, it would seem that the courts would uphold such provision as a valid regulation of interstate commerce.

Section 5 of the bill proposes to grant to persons required to testify regarding violations of the act immunity only from prosecution for the particular offense in connection with the prosecution whereof such testimony is given. It may sometimes be the case that the testimony of a witness, although directly bearing upon the alleged offense in issue, would indirectly relate to some other offense in which he has been implicated. By being compelled to testify in such matter he might be forced to disclose evidence leading to his prosecution for an offense as to which no immunity is granted him. The immunity granted in section 5 not appearing to be as broad as the constitutional protection afforded to witnesses in criminal cases, it is doubtful whether this provision would be upheld by the courts. (*Counselman v. Hitchcock*, 142 U. S., 585.)

#### EFFECTIVENESS.

This bill appears to be framed on the same economic theory as H. R. 15318. The object of both bills is not to destroy dealings in cotton futures but merely to eliminate the evil features connected with them. The methods only of accomplishing this object are different.

The plan of S. 110 is to deny to members of exchanges, on or through which cotton future contracts are made, the use of the mails for sending any matter which promotes or furthers the making or enforcement of such contracts, unless they are made to conform to certain conditions calculated to eliminate the evil features of future dealings. The use of the mails and the telegraph is also

denied for sending price lists of sales on any cotton exchange which does not use a contract in accordance with the provisions of the bill.

The class of transactions which the bill describes and attempts to regulate is the class which gives rise to the evil features that should be eliminated from the dealings in cotton futures. If the bill could reach all of these transactions its effectiveness to regulate them would be complete, leaving for consideration only the details of the regulative provisions. However, it appears that the bill would necessarily reach such transactions only when members of the exchange found it necessary to use the mails in making or enforcing the contracts or if the members found the use of the mails or telegraph to circulate their price lists indispensable in the conduct of their business.

Many future transactions are entered into on cotton exchanges, and are consummated without the necessity of resorting to the use of the mails. Plainly these would not be reached by the bill. It may be that the denial of the privilege of the mails and telegraph, in the respects provided for by the bill, would so inconvenience the exchanges that they would comply with the requirements of the bill in order to escape its prohibitions. However, if the advantages of continuing under their present system would outweigh the inconvenience which the exchanges might suffer by not meeting the requirements of the bill it is reasonable to predict that they would not subject themselves to its provisions.

Aside from those cases in which future dealings may be conducted on cotton exchanges without resort to the use of the mails, opportunities would be afforded by the bill as it stands for evasion of its requirements for the following reasons:

(a) It does not prohibit persons, other than exchange members, from sending orders by mail for the purchase or sale of future contracts not conforming to the provisions of the bill.

(b) It does not prevent either members of exchanges or other persons from sending communications respecting the making or enforcement of such contracts by express, telegraph, or telephone.

(c) Section 4 deals exclusively with price lists of sales on exchanges. The provision prohibiting the sending of these by telegraph, in case of exchanges not using a contract in accordance with the requirements of the bill, is unconstitutional, as applied to intrastate telegraph service. Furthermore, no penalty is provided for violating it.

(d) The bill does not prohibit the sending of such price lists by express.

The conditions imposed on future contracts by S. 110 are similar to those specified in H. R. 15318. A discussion of the conditions that should be attached to such contracts is entered into in connection with the consideration of the latter bill.

It may be remarked in this connection that, in the view of this department, no legislation based solely on the commerce clause of the Constitution, or on the power of Congress over the Postal Service, or on both, would be completely effective to correct existing evils arising out of dealings in cotton futures.

It may happen that cotton eventually tendered or delivered under a contract of sale for future delivery is at some time the subject of interstate commerce. However, the contracts of this description, which are commonly entered into on exchanges, do not necessarily contemplate or oblige the transportation of cotton from one State to another. As a rule the transportation of the cotton (if such occur) is independent of, or at least only incidental to, the performance of the contract entered into on the exchange. Such transactions, therefore, are not transactions of interstate commerce, which are subject to regulation by Congress under the commerce clause. (*Ware & Leland v. Mobile Co.*, 209 U. S., 405; *Brodnax v. Missouri*, 219 U. S., 285.)

If some agency of interstate commerce or the Postal Service is used in connection with the making or enforcement of a future contract, Congress might, with respect to the use of such agency or the mails, exercise its regulative power and thereby indirectly accomplish the regulation of the contract. It can not, however, regulate the contract as such or otherwise than by the indirect effect of its regulation of the interstate shipment or transportation of matter relating to such contract or of its transmission through the mails. Whether or not the indirect regulation of these contracts, in the limited class of cases in which it may be accomplished, would result in inducing the parties to conform them in all cases to the requirements sought to be imposed is problematical, depending on the comparative advantages and disadvantages accruing to the individuals concerned of adopting the one course or the other.

H. R. 15318.

## SUMMARY OF PROVISIONS.

Section 1 prescribes the short title of the act.

Section 2 defines certain terms used in the bill.

Section 3 levies upon each contract of sale (including agreements of sale, agreements to sell, and sales) of any cotton for future delivery made at, on, or in any exchange, board of trade, or similar institution or place of business a tax in the nature of an excise of one-tenth of 1 cent for each pound of the cotton involved in any such contract. It provides also for a levy of the tax on such contracts made on foreign exchanges, etc., in cases in which the order for such sale has been transmitted from the United States to such foreign country, and either the buyer or the seller is at the time of the execution of the contract a resident of the United States.

Section 4 requires such contracts of sale to be in writing, plainly stating or evidenced by written memorandum showing certain essential facts regarding the contract.

Section 5 provides for a reduction of the tax to 25 cents for each 100 bales of cotton of 500 pounds each and at that rate for greater or less quantities of cotton if the contract comply with certain specified conditions. The conditions are that it must—

(1) Conform to the requirements of section 4 and the rules and regulations made pursuant to the act.

(2) Specify the basis grade which shall be one of the grades established by the Secretary of Agriculture, the contract price per pound of cotton of such grade, the date of the purchase or sale, and the time of fulfillment or settlement of the contract.

(3) Provide that cotton dealt with under the contract shall be of or within the grades for which standards are established by the Secretary of Agriculture, and no other grade or grades.

(4) Provide for the settlement of differences above or below the contract price in case cotton other than the basis grade is tendered or delivered according to the provisions of the act.

(5) Provide that certain classes of cotton shall not be delivered.

(6) Provide for the tender of the full number of bales involved in the contract and for five days' notice to the receiver of delivery.

Section 6 contains provisions for the settlement of differences in case cotton other than the basis grade is delivered.

Section 7 prescribes what shall be considered bona fide spot markets within the meaning of the act.

Section 8 prescribes certain rules by which the Secretary of Agriculture is to be governed in designating bona fide spot markets.

Section 9 provides for the payment of the tax by the seller by means of stamps affixed to the contract of sale or to the memorandum evidencing the same.

Section 10 declares the contracts dealt with in the act to be unenforceable in the courts of the United States unless they comply with the requirements of sections 4 and 9.

Section 11 authorizes the Secretary of the Treasury to make rules and regulations and appoint agents to collect the tax imposed.

Section 12 prescribes penalties for evading or attempting to evade the payment of the tax or otherwise violating the provisions of the act or the rules and regulations made thereunder.

Section 13 imposes an additional penalty, to be recovered in a civil action, on account of violation of the act; one-half of the amount recovered to be paid to the informer.

Section 14 grants immunity from prosecution to certain persons called to testify concerning violations of the act.

Section 15 provides that the payment of any tax levied by the act shall not exempt the person paying the same from any penalty or punishment under State law nor prevent States from imposing taxes on the same transaction.

Sections 16 and 17 make appropriations to enable the Secretaries of the Treasury and of Agriculture to carry out the provisions of the act.

Section 18 prescribes when the provisions of the act shall go into effect.

## CONSTITUTIONALITY.

The bill is based exclusively on the tax clause (Art. I, sec. 8) of the Constitution. It proposes to tax the privilege afforded by exchanges, boards of trade, and similar places of dealing in contracts for the sale of cotton for future delivery. It takes note of the fact that there are certain evil features arising out of dealing in cotton futures on exchanges and boards of trade as at present conducted. For the purposes of taxation a distinction is drawn between those future contracts which comply with certain conditions calculated to eliminate these evil features and those contracts not complying with such conditions which would be likely to retain the evil features. A super tax is laid on the latter class of contracts and a reduced tax on the former. The question is whether this scheme of legislation would be upheld by the courts.

A tax on the privilege of dealing on exchanges and boards of trade is an excise within the meaning of the Constitution of the United States. (*Nicol v. Ames*, 173 U. S., 509.) As such it is stated to be subject to only two limitations, namely, it must be levied for the public welfare and must be uniform throughout the United States. (*Flint v. Stone Tracy Co.*, 220 U. S., 107, 153.) These limitations scarcely require any discussion in this connection. There can be no reasonable claim that the proposed tax is not for the public welfare, and the constitutional provision for uniformity, which means geographical uniformity solely (*Knowlton v. Moore*, 179 U. S., 41), is in no sense infringed.

However, there seems to be a limitation on the taxing power of Congress with respect to its classification of the different objects of taxation, but this power of classification is very broad. As stated in *Flint v. Stone Tracy Co.* (220 U. S., 158):

"In levying excise taxes the most ample authority has been recognized from the beginning to select some and omit other possible subjects of taxation; to select one calling and omit another; to tax one class of property and to forbear to tax another."

The limitation is well defined in *Nicol v. Ames* (173 U. S., 521), as follows:

"The question always is, when a classification is made, whether there is any reasonable ground for it or whether it is only and simply arbitrary, based upon no real distinction, and entirely unnatural."

A tax on the privilege of selling commodities on exchanges and boards of trade, without taxing the sales of the same commodities made elsewhere, was sustained in *Nicol v. Ames*, nor is it necessary to tax this privilege for all classes of sales made on exchanges or boards of trade. As stated in that case (p. 523):

"Nor is it necessary to tax the use of the privilege under all circumstances in order to render the tax valid upon its use in particular cases. We see no reason why it should be necessary to tax a privilege whenever it is used for any purpose or else not to tax it at all. It is not in its nature indivisible. A tax upon the privilege when used for one purpose does not require for its validity that the same privilege should also be taxed when used for another and a totally distinct purpose. It may be the same privilege, but when it is used in different cases to accomplish sales of wholly different things between which there is no relation whatever, one use may be taxed and the other not, and no rule of uniformity will thereby be violated."

Upon these grounds a tax on the privilege afforded by exchanges and boards of trade of dealing in contracts for the sale of cotton for future delivery would be valid, without taxing such contracts of sale when made elsewhere, and without taxing spot sales of cotton or sales of other commodities. Cotton is so different from other commodities and future contracts are so different from spot sales that the distinction drawn between them by the bill can not be said to be arbitrary or unreasonable, but is, in fact, natural and reasonable.

The only phase of the question remaining is whether it is valid to divide future contracts into two classes and apply a different rate of taxation to each class. The question here again is whether there is any reasonable ground for the classification or whether it is merely arbitrary, based upon no real distinction, and unnatural. The fact is that the distinction has a real basis, as pointed out above. The line is drawn between a class of future contracts, comprising those complying with the conditions specified, that serve a useful function in legitimate trade and another class, comprising those contracts not complying with the conditions specified, which injure the public interest.

In the case of *McCray v. United States* (195 U. S., 27) the validity of a similar statute was upheld by the Supreme Court. The act there considered



imposed a tax of 10 cents a pound on artificially colored oleomargarine and only one-fourth of a cent a pound on uncolored oleomargarine. There was not necessarily any difference in kind in the two classes of oleomargarine taxed. The only difference was that one was colored so that it resembled butter, whereas the other was not colored. The distinction drawn by H. R. 15318 between the two classes of future contracts is at least as reasonable as that involved in the McCray case and would doubtless be upheld on the same grounds by the Supreme Court.

With respect to the super tax on the artificially colored oleomargarine, it was held in the McCray case that the motive of Congress in laying the tax could not be inquired into by the courts, notwithstanding that it might result in totally destroying the business of manufacturing artificially colored oleomargarine.

It may be noted that discriminations in taxing statutes of the States have been upheld by the Supreme Court of the United States if the classifications were not arbitrary or unreasonable, notwithstanding that there is in the fourteenth amendment to the Constitution an additional limitation on the States, which does not apply to the Federal Government, prohibiting them from denying to any person the equal protection of the laws. Congress can at least go as far as the State legislatures in discriminating for purposes of taxation.

In *Southwestern Oil Co. v. Texas* (217 U. S., 114) the court upheld the validity of a State statute imposing an occupation tax on wholesale dealers in certain specified articles, although no tax was imposed on wholesale dealers in other articles or on retail dealers in the same articles. (See also *Bell's Gap R. R. Co. v. Pennsylvania*, 134 U. S., 232, 237, and *American Sugar Refining Co. v. Louisiana*, 179 U. S., 89, referred to below; *New York ex rel. Hatch v. Reedon*, 204 U. S., 152, and *Florida Central, etc., R. R. Co. v. Reynolds*, 183 U. S., 471, 476.)

#### EFFECTIVENESS.

This bill, like S. 110, makes a distinction between contracts entered into on exchanges for the sale of cotton for future delivery which comply with certain conditions calculated to eliminate the evil features of future dealings in this commodity and such contracts which do not comply with those conditions and which would be likely to retain the evil features. Instead of attempting to reach these contracts indirectly, by regulating the use of the mails or the various agencies of interstate commerce, the bill proposes to regulate such transactions directly, by imposing a super tax on the latter class and a reduced tax on the former. By this means those transactions out of which arise the evils of future dealings are discouraged and those embraced in the other class, which are free from these evils, are favored. Under this plan every transaction which it is necessary to regulate in order to correct the evils is reached. If the super tax is high enough in proportion to the reduced tax it would seem that eventually all dealers in cotton futures would find it to their advantage to conform their contracts to the requirements of the bill.

It may be remarked in this connection that the super tax is not a new device in this history of our legislation. It was, as long ago as 1866, applied to the circulation of State bank notes (14 Stat. 146), in 1886 and 1902 to the sale of artificially colored oleomargarine (24 Stat. 209; 32 Stat., 193), and in 1912 to the manufacture of phosphorus matches (37 Stat., 81). The employment of the taxing power to destroy a particular business, even though such business is injurious to the public interest, has been criticized. Yet its employment to encourage useful industries or practices and to discourage those which may be hurtful to the public is believed to be not merely defensible on principle, but wholly justifiable in the present circumstances.

In the selection of objects for taxation Congress must necessarily use discretion. It is only wise and just that those objects which are least useful or valuable to the public, or even in a sense hurtful to its interests, should bear most heavily the burden of taxation as compared with the objects which are of greater use or value to the public. The super tax proposed to be laid by the bill in question is not designed to destroy dealings in cotton futures. Even though the size of the tax be sufficiently large to cause the discontinuance of the present manner of conducting the business, such dealings themselves may, nevertheless, be carried on, in complete harmony with the requirements of the bill, in a way which will not result injuriously to the public interest, subject only to a small or nominal tax.

The propriety of using the taxing power in a manner calculated to encourage useful industries and discourage harmful traffic has been recognized by the United States Supreme Court in its consideration of State taxing statutes.

Thus, in *Bells Gap R. R. Company v. Pennsylvania* (134 U. S., 232, 237) the court says:

"We think that we are safe in saying that the fourteenth amendment was not intended to compel the State to adopt an iron rule of equal taxation. If that were its proper construction it would not only supersede all those constitutional provisions and laws of some of the States, whose object is to secure equality of taxation, and which are usually accompanied with qualifications deemed material, but it would render nugatory those discriminations which the best interests of society require; which are necessary for the encouragement of needed and useful industries, and the discouragement of intemperance and vice; and which every State, in one form or another, deems it expedient to adopt."

In *American Sugar Refining Co. v. La.* (179 U. S., 89) the court had under consideration a State statute imposing a license tax upon persons and corporations carrying on the business of refining sugar and molasses, but exempting planters and farmers grinding and refining their own sugar and molasses. With respect to this exemption the court said:

"The discrimination is obviously intended as an encouragement to agriculture, and does not deny to persons and corporations engaged in the general refining business the equal protection of the laws."

(See also *Florida Central Railroad Co. v. Reynolds*, 183 U. S., 471, 476.)

Granting that H. R. 15318 would effectively reach all transactions which it is necessary to regulate in order to eliminate the evil features of dealings in cotton futures, it only remains to consider whether the scheme of regulation prescribed by the bill is efficient.

The establishment of standards provided for under the proposed cotton-standards act, H. R. 14492 and S. 4895, introduced in the House by yourself and in the Senate by Senator Gore, is a necessary precursor to the effective administration of the proposed cotton-futures act. The two in no sense duplicate each other, but are complementary.

Directly in many cases, and indirectly in a greater number, the price of spot cotton is based on the quotations of the future markets. If, for any reason peculiar to exchange methods and transactions, the price of futures is depressed unduly, as is not infrequently the case, by conditions in nowise connected with the total available supply of cotton, or the demand for the actual staple, an indefensible economic and commercial condition arises, harmful to all persons owning or dealing in spot cotton from farmer to spinner.

It is now generally admitted that these conditions are due (1) to the multiplicity of prevailing standards, (2) to the so-called system of fixed differences between grades used in the settlement of contracts; (3) to the fact that very low qualities of cotton, suitable for use only by a few spinning mills, may be delivered on contract; (4) to the fact that tenders of cotton under contracts do not indicate the qualities which it is proposed to deliver; and (5) to the fact that, under the pro forma delivery practice, several weeks frequently elapse before the person obligated to receive cotton knows the grades that have been tendered. The bill would inevitably correct these conditions by the inducements which it offers to the use on exchanges of contracts which eliminate all of these evil features. If the contract rights between the parties to exchange transactions be effectively regulated, the enforcement of such rights may safely be left to the action of the persons in interest and to the courts.

The investigations of the department show that the lack of any commonly accepted standards and reliable quotations are the fundamental causes of much of the confusion that exists. The losses accruing fall most heavily upon the farmer, as it is practically impossible for him to acquire the detailed knowledge of cotton classing and marketing that would be necessary in order to enable him to protect himself.

The requirements which future contracts must meet in order to entitle them to the reduced tax under the bill are aimed to correct the abuses now existing in future trading, and are intended to raise the value of the contract so that it will agree more closely with the price of spot cotton.

The corrective provisions require (1) the substitution of official Government standards for the various local standards now in use; (2) that true commercial differences, to be determined as provided in the act, must replace all fixed or arbitrary differences; (3) that low-grade, undesirable, and unmerchantable cottons must not be delivered on contract; (4) that the seller shall state the

grade and identity of each individual bale to be tendered; and (5) that the seller shall give five days' notice of the date of delivery, which fixes the responsibility for having cotton certificated and ready for delivery.

The bill authorizes the Secretary of Agriculture to designate the spot markets to be used in arriving at the commercial differences in value, and also authorizes him to collect and publish the necessary data in connection therewith. The Secretary of the Treasury is authorized to promulgate the necessary rules therefor, and shall collect the tax laid. Penalties sufficiently heavy to deter violations are imposed, and rewards for information are provided that should render violations dangerous.

The cotton standards bill (H. R. 14492; S. 4895) is fundamental in its nature and seeks to provide the necessary standards by which the value of cotton may be better determined, and to insure the proper application of these standards. The cotton futures bill aims to secure fair and reliable quotations on which correct ideas of value may be based. The two bills do not overlap in any respect, but both require the application of official standards to cotton tendered in settlement of future contracts. They furnish no cause for alarm to the legitimate cotton interests of the country, including the exchanges, and their adoption should greatly simplify and improve conditions throughout the industry.

Respectfully,

D. F. HOUSTON, *Secretary*.

The CHAIRMAN. Gentlemen, Representative Harrison, of Mississippi, has been waiting very patiently for four days to be heard, and we are about to close the hearings. Of course, Mr. Harrison realizes the lateness of the hour.

**STATEMENT OF HON. BYRON P. HARRISON, A REPRESENTATIVE  
IN CONGRESS FROM THE STATE OF MISSISSIPPI.**

Mr. HARRISON. Well, Mr. Chairman, as I understand the views of the committee from the questions they have asked and the way the whole hearings have proceeded, it seems to me that the committee is fixed in its determination to pass legislation that will regulate these exchanges, rather than prohibitory. If that is true (and it looks to me as if it is true), I would be taking up the time of the committee without accomplishing anything, in discussing the bill which I have introduced and which is before the committee, a bill which goes beyond these other bills before the committee, and one which I am sincerely in favor of, and which I have strong convictions upon, so far as the constitutionality of the measure is concerned; and I do not care to take up the time of the committee in a useless discussion of that question.

The CHAIRMAN. If you will permit me, I will say, in reply to the suggestion of Mr. Harrison, that so far as I know, I have not the least idea as to the attitude of the members of the committee on these various propositions. I have talked to only one or two members of the committee on the subject, and personally, my own views are very well known on this proposition. Beyond that, I can not say. If you desire to address the committee, Mr. Harrison, the committee will be very glad to hear you, either on the economic side of the question or on the constitutional side of the question.

Mr. HARRISON. It is late, and I will take but a very few moments of the time of the committee.

The CHAIRMAN. Or we will be very glad to have you file a brief.

Mr. HARRISON. Well, I will take the privilege of "extending my remarks," if the chairman will give me permission to do that.

Mr. Chairman and gentlemen, I am naturally conservative. But in this matter I suppose that I am really radical, because I believe that the exchanges, at least the future dealings on the exchanges, are wrong, and I think, as you all concede, that it affects the price of the spot cotton and for the reason that it is necessarily detrimental to the interest of the farmers of the country. But I will leave that subject alone and will not discuss it. I have heard every gentleman who has appeared before the committee to controvert that proposition, and I know that I could not convince them.

But the question has come up as to the constitutionality of certain bills before the committee, and the chairman has the idea under the rules laid down in the case of *Leland & Ware v. the City of Mobile*, decided in the United States Supreme Court from Alabama, that under the interstate-commerce clause of the Constitution this Congress has not the right to pass legislation that would destroy the future dealings on the cotton exchanges of this country. Am I right, Mr. Chairman?

The CHAIRMAN. No; my proposition was—

Mr. HARRISON (interposing). I so understood the chairman, and I so understood the president of the New York Cotton Exchange.

The CHAIRMAN. No; my proposition is this, that the case of *Leland & Ware v. the Port of Mobile*, reaffirmed by the case of *United States v. Patten*, cast so much doubt upon that proposition that the committee, if it is going to regulate rather than destroy, should look to some other power in the Constitution by which to do it.

In other words, I would rather rely upon a certainty than upon an uncertainty. I have not fully made up my own mind as to whether that *Leland & Ware* case would control the situation; but it looks very much like it.

Mr. HARRISON. Well, that is a question that lawyers differ about. When this question of excise tax was first up, in 1902, lawyers differed about it; now Chief Justice White, then a Senator from Louisiana, said that it was unconstitutional.

Mr. GLENNY. I think Mr. Harrison is wrong about what Justice White said. I think Justice White said it was class legislation.

Mr. HARRISON. Yes.

Mr. GLENNY. And that it was obviously intended for nothing besides destruction.

Mr. HARRISON. Yes.

Mr. GLENNY. Well, this bill is not obviously for destruction.

Mr. HARRISON. I understand. But Senator White, now Chief Justice, did say it was unconstitutional, and Senator George, of Mississippi, who was regarded as equally as great a constitutional lawyer at that time, presented to the Senate during that debate the exact bill, practically, that I now have before your committee, and he answered the proposition, and some of the Senators who were most eminent as constitutional lawyers of that time voted for the George proposition. They thought it was constitutional.

Here is how I understood the *Leland & Ware v. Mobile* case:

The *Leland & Ware Co.* had an agency in the city of Mobile for the sale of these cotton-future contracts, from which the orders were transmitted to their respective houses in New York or New Orleans. There was a license tax imposed upon those agencies in that State, and the city of Mobile went in and started to collect that license tax.

They were enjoined by this particular concern on the theory that they were doing an interstate business, that they transmitted these telegrams to these houses in New Orleans and New York, and that the State had no right to impose this license tax, because it came within the interstate-commerce clause of the Constitution.

That was their contention, and the Supreme Court held that the State of Alabama did have a right to impose this license tax.

From a casual reading of that decision you might think that they held it was violative of the interstate-commerce clause; but if you so believed you would lose sight of this fact in that case, that the courts have always held, and did not hold differently in that case, that where the Federal Government, through Congress, passes legislation, and says they have a right to legislate on a certain proposition under the interstate-commerce clause of the Constitution, holding it to come under the commerce clause, it is within the discretion of Congress to pass that legislation, and it will not be held unconstitutional.

Now, if that proposition had come before Congress as it came before the Alabama court, and Congress had passed a law, under the interstate-commerce clause of the Constitution, saying that future contracts were in restraint of interstate commerce, and it had gone to the Supreme Court of the United States, I believe that they would have held, and I believe it under the opinion that has been held in that case, that under the interstate-commerce clause of the Constitution giving Congress that broad discretion to say what is interstate commerce, that Congress had the right to pass such legislation. And so when the State passed that kind of law and Congress had not legislated upon that proposition itself, there is a very different question presented.

The CHAIRMAN. Well, were not the facts in that case (supplementing your statement of facts) that the Supreme Court of Alabama held that contracts for the future delivery of grain or cotton were not interstate commerce at all, and that from that decision the case came to the Supreme Court of the United States, and the Supreme Court of the United States, upon stipulated facts, setting out the facts as you have stated them, affirmed the decision of the Supreme Court of Alabama holding that these contracts for the future delivery of cotton or grain, following the insurance case of *Paul v. Virginia*, and *Hooper v. California*, and others, was not in fact interstate commerce?

Mr. HARRISON. It was affirmed by the Supreme Court, but, as I say, it was not a question of a matter upon which Congress had exercised its discretion under the interstate-commerce clause of the Constitution. That point was not presented. It is true that it was contended that it was a part of the interstate commerce, but it was a part of interstate commerce that was not legislated upon by Congress under its constitutional powers.

Now, in the case of *McCulloch v. Maryland*, where the opinion was rendered by Chief Justice Marshall, he says—and this is the rule that has been followed all along the line up to the present—that Congress—

has a large discretion as to the means that may be employed in executing a given power. The sound construction of the Constitution must allow to the National Legislature that discretion with respect to the means by which the powers it confers are to be carried into execution, and will enable that body to perform the high duties assigned to it, in the manner most beneficial to the

people. Let the end be legitimate; let it be within the scope of the Constitution, and all means which are appropriate and which are plainly adapted to that end, which are not prohibited but coincide with the letter and spirit of the Constitution and are constitutional.

In the *Western Union Telegraph Co. v. Pendleton* (122 U. S., 347) the court recognized the commerce with foreign countries and with the States which Congress could regulate as including not only the exchange and transportation of commodities as visible, tangible things, but the carriage of persons and the transmission by telephone of ideas, wishes, orders, and intelligence.

(See also *Raltermann v. Telephone Co.*, 127 U. S., 411, and *Le Loup v. Port of Mobile*, 127 U. S., 640.)

In the *Lottery case* (188 U. S., 353) the court said:

As a State may, for the purpose of guarding the morals of its own people, forbid the sale of all lottery tickets within its limits, so Congress, for the purpose of guarding the people of the United States against the widespread pestilence of lottery and to protect the commerce which concerns all the States, may prohibit the carrying of lottery tickets from one State to another. In legislating upon the subject of the traffic in lottery tickets as carried on in interstate commerce Congress only supplemented the action of those States prohibiting the drawing of lotteries, as well as the sale and circulation of lottery tickets, within their representative limits.

In *Gibbons v. Ogden* (9 Wheat., 1) Chief Justice Marshall said:

The wisdom and discretion of Congress, their identity with the people, and the influence which their constituents possess at last are in this, as in many other instances, as that of declaring war, the sole restraint on which they have relied to save them from its abuse. They are the restraints on which the people must often rely solely in all representative governments.

In the lottery case just cited the court held that the constitutional power of Congress to regulate interstate commerce includes the power to prohibit in cases where such prohibition is in aid of the lawful protection of the public.

In the case of *United States v. Hoke* (187 Fed. Rep., 992) and the case of *Bennett v. United States* (114 C. C. A., 402) the court held that the white-slave act, which forbids the inducing of a person to come into a State with unlawful purpose in aid of such unlawful purpose is not unconstitutional as an invasion of the police power of the State.

In *Gloucester Ferry Co. v. Pennsylvania* (114 U. S., 196), in the *Northern Security case*, reported in One hundred and ninety-third United States, page 197, the court announced again the doctrine that the power of Congress over interstate commerce is as full and free as the power of the several States is over their domestic commerce, subject only to the restrictions contained in the Constitution of the United States.

The question involved was as to the validity, under the commerce clause of the Constitution, of an act of the Legislature of the State of Kentucky relating to the fixing of charges for tolls for persons passing over the bridge that connected Covington, Ky., with Cincinnati, Ohio.

The court reaffirmed the principles announced in the *Gloucester Ferry Co. v. Pennsylvania* (114 U. S., 196), in the *Wabash, etc., Railway Co. v. Illinois* (118 U. S., 557), and among other things said:

Commerce was defined in *Gibbons v. Ogden* (9 Wheat., 1) to be "intercourse," and "hundreds of people who daily pass and repass over this bridge may be

as truly said to be engaged in commerce as if they were shipping cargoes of merchandise from New York to Liverpool. While the bridge company is not itself a common carrier it affords a highway for such carriage, and a toll upon such bridge is as much a tax upon commerce as a toll upon a turnpike is a tax upon the traffic of such turnpike or the charges upon a ferry a tax upon the commerce across a river.

In *Caldwell v. North Carolina* (187 U. S., 622) and in *Norfolk & Western Ry. Co. v. Sims* (191 U. S., 441) the court held that a corporation carrying on business in one State obtaining orders through an agent in another State is engaged in interstate commerce, notwithstanding the fact that goods might be shipped in sections and put together by the agent prior to delivery.

In the case of the *Monongahela Bridge v. United States* (216 U. S., 177) the court held that "Congress had the right to order removal of a bridge over the river under the commerce laws of the Constitution because it was an obstruction to interstate commerce."

If this be true, then an exchange wherein brokers buy and sell futures and make charges for their fees which affect the prices of wheat or cotton or whatever commodity may be sold or purchased upon such exchange, which commodity must pay the charges, is a tax on the free commerce of that commodity, and the interstate character of such commodity is affected by such charge or tax.

The *Addyston Pipe* case (175 U. S., 226) was a case tried in the circuit court by Mr. Taft, and in rendering an opinion the Supreme Court said:

The reasons which may have caused the framers of the Constitution to repose the power to regulate interstate commerce in Congress do not, however, affect or limit the extent of the power itself. Under this grant of power of Congress that body, when judgment may enact such legislation as shall declare void, and prohibit performance of any contract between individuals or corporations, when the natural and direct effect of such contract will be, when carried out, to directly, not as a mere incident to other and innocent purposes, regulate to any substantial effect interstate commerce.

I merely call attention in this connection to the following instance where under the exercise of the regulatory power Congress has prohibited commerce between the States. The act of May 29, 1884 (23 Stat., 31), prohibits the transportation in interstate commerce of any live stock affected with any contagious, infectious, or incurable disease, and that act was held to be constitutional in the case of *Reid v. Colorado* (187 U. S., 137).

The antitrust act of 1890 (26 Stat., 209) is an act prohibiting the making of certain contracts and declaring them to be illegal. Among other things embraced in that act was a provision that in substance, stated that where two competing railroads in the State made a contract between themselves to fix rates, etc., that it would be held a contract in restraint of trade.

That was so, even though the contract was made between citizens of the same State in the same State. That act has been held to be constitutional in a number of cases, notably in the case of *U. S. Joint Telegraph Association* (171 U. S., 505).

The act of July 1, 1902 (32 Stat., 632), prohibits the transportation from one State to another State of dairy products which have been falsely branded or labeled.

The pure-food act of June 20, 1906 (34 Stat., 768), the act of June 21, 1905 (33 Stat., 732), publishing the transportation in the inter-

state commerce of gold or silver goods with the words "U. S. Assay" on them are acts that no one contends are unconstitutional.

The act of March 3, 1905 (33 Stat., 1269), publishing the transportation in interstate commerce of certain insects that were supposed to help distribute the boll weevil, and the migratory-bird act passed in the Sixty-second Congress, are instances wherein Congress took the view that they had a very broad discretion in passing legislation under the interstate-commerce act of the Federal Constitution.

Under the commerce clause of the Constitution the river and harbor bills are passed to remove from our waters obstructions to foreign and interstate commerce, and that same commerce clause tenders to Congress the power to remove the obstruction to commerce created by "options" and "futures" dealings. The admitted power of Congress to remove obstructions to commerce carries with it the power to declare what is an obstruction, and from this declaration on the matter within its jurisdiction there can be no appeal from the judgment of Congress. It is admitted by the heads of the exchanges and by all well-informed persons on future dealings in the exchanges that the dealing in futures affects the spot price of the commodities dealt in. It is conceded, too, that the New York Cotton Exchange, in particular, fixes the price of cotton.

If cotton, therefore, is a commodity of interstate character and of foreign-commerce character, and which is conceded, then certainly the cotton exchange in New York affects, either by making the price high or low. (26 Interstate Commerce.)

If the bears on the exchange force, under the rules and regulations of the exchange, the price of cotton down, they necessarily influence the amount of the cotton crop, because some farmers will sell on a high price or a medium price their cotton when they will not sell their cotton on a low price, and therefore, necessarily, the exchange by such action of its members obstructs the shipments and commerce in cotton from one State to another and from the United States to foreign nations.

It is clearly my opinion that we have a right under the interstate-commerce clause of the Constitution to legislate against the dealings in futures and options on the exchanges, but I have very grave doubts that Congress should legislate on the subject through the taxing power of Congress.

I have always believed that the sole right of the Federal Congress to tax under the provisions of the Federal Constitution was for the purpose of raising revenue to run the Government, and ought never to be used as a weapon of destruction.

Now, Mr. Chairman, in the discussion of this subject I approach it with the full realization of its important character and the effects of said legislation. I am fully aware that where a system has grown up of such a character and of such magnitude the prices of many of the great agricultural products of the country are fixed by the exchanges of the country and influenced through the dealings in the futures and options on the exchanges, and when a movement is started to change that system that it is likely to revolutionize it and cause uncertainty and doubt. But when I read my country's history, and the history of other countries, I recall that no great reform was ever accomplished except through a change from one condition to another condition. The French Revolution is but one instance, the



Civil War is another. The South had become so accustomed to slavery, and it was an institution that had grown to such proportions and was so interwoven with the social, political, and industrial life of the South that southern leaders believed that if slavery were taken away from the South that it would so revolutionize the condition there that the people would be unable to further carry on their legitimate pursuits, and that it would be prostrated from such a change.

But the change was wrought. Slavery was abolished. And the South under the new conditions has wrought wonders, and has made a greater progress and a more wonderful advance in all lines than she had ever made before.

When the lottery system flourished in New Orleans, and had interwoven itself into the speculative fabric of the people throughout the United States, and had become an incubus on the public morals of the country, and the movement was started to wipe it out of existence, the same opposition was heard then as is now heard by the gamblers and speculators and their sympathizers in this country. But legislation was passed wiping out the lottery system, and the effects of the change have been of an elevating rather than of a depressing nature.

When the Sherman antitrust law was passed the same hue and cry went up from the railroads of the country.

And again, when the Interstate Commerce Commission was created, the same opposition developed, and the plaintive cries of the railroads were heard, but both of these measures were passed. And while they in a way revolutionized the conditions in the business of the railroads of the country the effect of the legislation has been most wholesome to all of the railroads and corporations that have honestly conducted their business.

And so I might enumerate ad infinitum great movements and important pieces of legislation that have come and been of most beneficial effect, but at the crisis of the movement or the legislation dire and disastrous results were predicted and ruin prophesied.

But in this matter I feel that when honest people are laboring in the wheat fields of the Northwest, in snow and ice, and in the cotton fields of the South under a tropical sun, producing the great staples which feed and clothe the world, which bring to our shores annually the golden treasure which forms the basis of our currency and preserves the balance of trade to our country, who give life to our commerce and honest thrift and industry, they should be protected by the laws of the country from at least robbery and spoliation.

The trained body of experts comprising the cotton exchanges and boards of trade, the men who manipulate the markets and report prices, who without owning a bushel of wheat or an ear of corn or a bale of cotton debauch and wreck both foreign and domestic markets, where alone these great products may be sold, by selling for future delivery five or ten times the quantities of each raised in the world, and then beating down the prices so as to realize great profits to themselves while ruining honest labor and destroying real and honest capital employed in their productions, should have the heavy hand of the law laid on them and treated like the wrongdoers they are.

Mr. HERLIN. You would be willing for any concern, any legitimate cotton business, to remain in that business, would you not?

Mr. HARRISON. Do you mean dealing in cotton futures?

Mr. HEFLIN. If the cotton exchange can be used as a place that helps to distribute the real crop of cotton you would not oppose it, if it would be a legitimate business, would you?

Mr. HARRISON. No; I would not oppose it at all then.

Mr. HEFLIN. I agree with you that if it can not be regulated so as to naturally distribute the crop it should be destroyed, and I would then be in favor of the proposition.

Mr. HARRISON. Going back to that proposition, we have been at this thing since 1890, and the same facts have been presented to the committee time and again showing the injurious effects of exchanges, and the matter has been agitated ever since then. In 1892 legislation was passed through both houses of Congress that would have absolutely put them out of business; and it seems to me that we are a long time about coming around to regulating the matter in a manner that would be beneficial to the country.

Now, of course, these spinners want to hedge; they are here arguing for the bill for that reason. But if every spinner in the United States hedges for every bale of cotton that he purchases or sells there would not be over six or seven million bales of future contracts bought and sold. And here, under the testimony before the committee, the minimum amounts sold on the exchange to-day is 100,000,000 bales. I believe that was agreed to by the gentlemen who have testified here; that there were 100,000,000 bales sold on the exchanges every year. I believe that one gentleman said that one-fourth of it was on the New Orleans Exchange and three-fourths of it on the New York Cotton Exchange.

Mr. GLENNY. No; I made no estimate.

Mr. HARRISON. I know you did not; the estimate was made by Mr. Marsh, and some one else said that about one-fourth of the amount was sold on the New Orleans exchange.

Mr. HEFLIN. One of the manufacturers from South Carolina said that the future contracts amounted to 25 times the size of the crop.

Mr. HARRISON. Mr. Chairman, I am not going to take up the time of the committee any more. The committee understands my position.

I came before the committee for this reason: When the committee reports the bill and it goes before the House I want to support it if possible. I want legislation on the subject. I hope we can support the bill which the committee will report—those of us who feel as I do—and I hope that it will be so drastic that these defects, inequalities, and iniquities of the exchanges will be cured, but if it is not, then we can not support the committee's bill. And I thought the committee would not object if I should appear here and present the matter so that you, at least, would consider it, and so that when it came up on the floor of the House it could not be said that your committee did not even consider the abolishing of the exchanges of the country.

The CHAIRMAN. In that connection, I think it is fair to say that the Candler bill, introduced by your colleague, which is the old Scott bill, which was later known as the Bell bill, is, in the judgment of most of those who helped to frame it, a destructive proposition; and to say that the committee did consider that proposition. The chairman sent that bill to the Department of Agriculture, and has had a full report made upon it, which will appear in the public hearings.

I should like to ask Mr. Harrison just one question, if the committee will indulge me.

If this committee is to regulate, rather than report legislation which is destructive, as a matter of judgment, would you think it wise to rely upon a power of the Constitution that there can be any doubt whatever about when we have another power of the Constitution upon which there can be no doubt?

Mr. HARRISON. Well, I think this: I think you have the right, either by the imposition of this excise tax or under the interstate-commerce clause of the Constitution, to get at it. I do doubt whether the Senate bill is constitutional.

The CHAIRMAN. That is just the point.

Mr. HARRISON. I admit that I doubt that; and as far as the two bills are concerned, the Lever bill and the Senate bill, I think your bill is better, because I do not think there is any meat at all in the Senate bill.

The CHAIRMAN. Of course, we know how long this question has been before the committee; we have been considering it for many, many years, as Mr. Haugen and the older members of the committee will remember.

Mr. HAUGEN. Yes.

The CHAIRMAN. My idea is that the time has come when we ought to legislate and when we can legislate, within the bounds of reason. And that being true, it seems to me that all men who are earnestly in favor of doing something to bring about these reforms ought to make up their minds that the legislation should be based upon a well-established principle of constitutional power, and for that reason I introduced a taxing bill, because I had my own serious doubts (although I am not a lawyer) as to the constitutionality of the Senate bill.

But I think it can be said for this committee that every member of the committee is as sincerely anxious as anybody could be to bring about proper regulation, and if that can not be had, then I do not hesitate to say the destruction of the exchanges outright, and take our chances on it.

Mr. HARRISON. Well, I doubt the regulation. I hope if you do pass a bill, however, that they will abide by the regulation, and that it will meet this sentiment that is constantly growing all over the country against it.

The CHAIRMAN. We are very much obliged to you.

(Thereupon, at 5.30 o'clock p. m., the committee adjourned.)



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# IMPORTATION OF CATTLE

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H. R. 13039

A BILL RELATING TO THE IMPORTA-  
TION OF CATTLE

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MAY 15, 1914



## IMPORTATION OF CATTLE.

COMMITTEE ON AGRICULTURE,  
HOUSE OF REPRESENTATIVES,  
*Friday, May 15, 1914.*

The committee this day met, Hon. Asbury F. Lever (chairman) presiding.

The CHAIRMAN. The committee will come to order. Gentlemen, Representative Broussard has asked to be heard on House bill 13039, a bill to amend the act of August 30, 1890. We are very glad to have Mr. Broussard with us this morning.

### STATEMENT OF HON. ROBERT F. BROUSSARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA.

Mr. BROUSSARD. Mr. Chairman and gentlemen of the committee: This is practically the third draft since 1908 that I have made of the proposition which this bill includes. In 1908 the Honduran consul at New Orleans took up with the Department of Agriculture the question of opening the ports of Mobile and New Orleans to the importation of cattle from Central American countries.

Mr. DOOLITTLE. I did not understand the country that you referred to.

Mr. BROUSSARD. Well, the consul took it up for Honduras, but in reality the proposition included Mexico, Guatemala, Costa Rica, Salvador, and possibly Colombia and Venezuela. At that time Dr. Melvin wrote to the consul, and I have here a copy of the letter. The people in the city of New Orleans, the commercial bodies, requested Judge Davey, then a Member of Congress from the city of New Orleans, and myself to interest ourselves in this matter, because of the trade that would develop between those countries and southern ports should these ports be opened to the importation of cattle from those countries. You will see by this letter that while the Chief of the Bureau of Animal Industry declined to permit the importation of these cattle, he did so on the ground that the law did not permit the bureau to allow cattle coming from tick-infested sections to be imported into the United States. I would like to file all of the letters I have on this subject, because I want to preserve them.

The CHAIRMAN. Without objection, that may be done.

(The letter from Dr. Melvin, just referred to, follows:)

UNITED STATES DEPARTMENT OF AGRICULTURE,  
BUREAU OF ANIMAL INDUSTRY,  
*Washington, D. C., September 28, 1908.*

Mr. J. E. ALVARADO,  
*Consul General of Honduras, New Orleans, La.*

SIR: Your letter of the 4th instant, addressed to the Secretary of Agriculture, has been referred to this bureau for attention.

I am likewise in receipt of a communication from Hon. R. C. Davey, New Orleans, La., inclosing a letter from Mr. Philip Werlein, president of the New

Orleans Progressive Union, in the same connection, and beg to state that the department is not permitting the importation of live stock from either Central or South America on account of tick infestation being more or less general down to a line including the northern portion of Argentina.

This department is engaged at the present time in the eradication of the southern cattle tick in several of the States below the quarantine line. Please find inclosed Bureau Circular 110, entitled "Methods of Eradicating Cattle Ticks." Hence it could not favorably consider the admission of animals from a foreign country which are very liable to be infested with these ticks.

It would seem from recent reports from South America that foot-and-mouth disease has become established in Argentina, and from that country has been communicated to other South American Republics, and we have no means of definite information as to whether or not foot-and-mouth disease or other infectious disease of live stock exists in Honduras.

Very respectfully,

A. D. MELVIN, *Chief of Bureau.*

Mr. BROUSSARD. I did not agree with Dr. Melvin that the department was without discretion in permitting or withholding permission for cattle to be imported into the United States, provided it was done south of the quarantine line. However, his judgment necessarily prevailed. Subsequently this same consul took up the matter in Honduras, which country he represented at the port of New Orleans, and secured from the American consul, as well as from the governor of Tegucigalpa; of the Province of La Paz; of the Province of Yoro; of the Province of Comayagua; of the Province of Oco-tepeque; of the Province of Gracias; of the Province of Choluteca; of the Province of Nacaoma; and from the President of the Republic at the time, statements as to the condition of the herds in those Provinces. These Provinces included large pastures. I might say that Honduras is, perhaps, the least thickly settled country in the world, great areas of land being devoted to cattle raising, but because of the closing of the market to them in Cuba, on account of the production of cattle in Cuba since 1898, they have no permanent market for their cattle. There are great ranges there, but no place to dispose of the cattle. I would like to insert in the record the letters from the consul and governors of these Provinces.

(Said letters follow:)

H. D. MELVIN,

*Chief of Bureau of Animal Industry,*

*Department of Agriculture, Washington, D. C.*

SIR: Your favor bearing date of September 28 (file U-4) was received by me some days ago, and would have been acknowledged earlier except for the fact that, owing to the importance of the question at issue, I deferred replying until I could secure the necessary data to make our position clear.

I take the liberty of attaching a petition signed by many of the leading merchants, bankers, and exporters of the port of New Orleans, and I desire to make this comment upon the sentiment in this city that in presenting this petition for signature we have met with unqualified support and approval. The unanimity of opinion is best stated when I say that not a single gentleman approached on the subject has failed to indorse our plan by refusing to sign the petition.

I especially invite your attention to the documents emanating from the constituted authorities of Honduras, as well as the declaration of Mr. William E. Alger, consul of the United States at Tegucigalpa. These documents, I believe, justify me in stating that the diseases of cattle which form your chief objection to the importation of stock from Honduras do not exist in that country. I beg further to direct your attention to the fact that the request applies only to cattle imported from Honduras to the United States to the port of New Orleans for immediate slaughter. Having, I believe, satisfied you that the reason for your formal refusal to grant this request does not exist, I respectfully ask you to reconsider the matter and upon the proof now furnished to



place the cattle imported from Honduras on a parity with that imported from Mexico, viz, subject to inspection only, leaving the regulation of inspection to your department.

Very respectfully,

J. E. ALVARADO,  
*Consul General of Honduras.*

COMAYGUELA (HONDURAS), October 22, 1908.

Sr. J. E. ALVARADO,  
*Consul General of Honduras, New Orleans :*

Received your telegram asking my opinion respecting the Honduran cattle—that is to say, their fitness to fatten, their size, and health conditions. My opinion has been formed during my 25 years' residence in this country, and I have never seen nor heard of an epidemic of cattle in Honduras nor have I known of a single case of tuberculosis or any contagious disease. Some 5-year-old steers are small, averaging from 700 to 800 pounds; this is explained by the lack of introduction of new blood into the country, but can be remedied by crossing old steers weighing 1,000 pounds. In Truxillo and near Puerto Cortes there are large grass fields and every facility for immediate shipping. During the last 50 years Honduras has furnished cattle to Cuba, Guatemala, and British Honduras, without a single instance of complaint in regard to health conditions. I am at your disposal to give further and all information in regard to this matter.

W. E. ALGER, *American Consul.*

TEGUCIGALPA, November 24, 1908.

CONSUL OF HONDURAS, *New Orleans:*

With positive knowledge I inform you that the cattle of this country is free from all contagious diseases, such as tuberculosis, ticks, or foot-and-mouth diseases.

My opinion is that the cattle of this country is fit for exportation into that country, as it has been exported to different countries and climates and no complaints have ever been received. The cattle is very gentle for handling.

M. CARIAS A.  
*Governor of Tegucigalpa.*

LA PAZ, November 24, 1908.

CONSUL OF HONDURAS, *New Orleans:*

The cattle of this Department is free from all diseases, is gentle, and easily fattened and good for exportation.

FRANCISCO CARDONA,  
*Governor of La Paz.*

YORO, November 24, 1908.

CONSUL OF HONDURAS, *New Orleans, La.:*

In answer of your message of the 12th instant I beg to inform you that the cattle of this Department is in good condition for exportation and in sanitary condition. Its excellent qualities afford unsurpassed advantages for exportation on account of the proximity to the Atlantic seaports.

It is notorious that Olancho and Yoro have kept up the cattle business with Cuba with very good results. I believe, as you do, that the business with the United States will save the country.

D. ROMERO,  
*Governor of Yoro.*

COMAYAGUA, September 24, 1908.

CONSUL OF HONDURAS, *New Orleans, La.:*

In answer to your telegram of the 12th instant, I have the honor to give you the following data:

First. The cattle of Honduras is free from all diseases, suffers from no contagious diseases, such as tuberculosis, ticks, foot-and-mouth trouble.

Second. This cattle is fit for fattening purposes and gentle for driving and exportation, as is proven by the quantities that have been shipped to Cuba, Belize, Guatamala, Costa Rica, Salvador, and Mexico.

It is to be hoped that the cattle enterprise will be successful in opening this market for our cattle, which will result in great opportunities for the country at large, as well as for those interested in the business.

JOSE M. OCHOA,  
Governor of Camayagua.

OCOTEPEGUE, November 24, 1908.

CONSUL OF HONDURAS, *New Orleans, La.*:

Regarding the information that you ask me, I beg to say to you:

First. That the cattle of this Department has no contagious diseases, and, without exaggeration, the lands and pastures, coupled with the climate, make it impossible for any infectious diseases.

Second. They have the qualifications for fattening; and I firmly believe that in that market they will bring a good price, besides giving entire satisfaction to the consumers.

J. DE LA P. PALMA,  
Governor of Ocotepegue.

GRACIAS, November 24, 1908.

CONSUL OF HONDURAS, *New Orleans:*

Answering your circular of the 12th instant, I beg to say that the cattle of this Department is of excellent quality, sound, and can be transported to any part of Central America without difficulty.

Being raised on the defiles of the tropical mountains, they have a hard hoof, are very tame, and has magnificent qualifications for fattening when in pasture, being very gentle when driven—the last been proved by the experience in moving the cattle from the interior of the Republic to the north coast. After 10 months the cattle can not be recognized, on account of its size and fatness.

FRANCO A. LOPEZ,  
Governor of Gracias.

CHOLUTECA, November 24, 1908.

CONSUL OF HONDURAS, *New Orleans, La.*:

I have the honor to inform you that the cattle of this Department is free from contagious diseases such as the mouth-and-foot trouble; it is easily fattened, and in a short time, because of its healthy condition.

It is gentle and can be transported without any trouble, also being of good size; the meat is very tender and agreeable to the palate. If you wish any more information, I will be very glad to furnish you with same.

M. VALASQUE,  
Governor of Choluteca.

NACAOME, November 24, 1908.

CONSUL OF HONDURAS, *New Orleans:*

I give you with pleasure the data you ask me in your telegram of the 12th instant:

First. The cattle of this section does not suffer from any contagious diseases such as tuberculosis, ticks, and foot-and-mouth disease.

Second. They have all the qualifications for fattening in pasture, are gentle and hardy, being capable of enduring the long distant journey to Puerto Cortes or Guatemala.

The cattle of the southern zone of our Department has the same qualifications.

ANTONIO LARA,  
Governor of Nacaome.

PALACE, TEGUCIGALPA, November 11, 1908.

CONSUL OF HONDURAS, *New Orleans, La.*:

I received your telegram of the 5th, as also your last letter. I think as you do, and the Government will lend its assistance to the cattle business by giving all facilities as may be conducive to its success. In case it becomes necessary,

I hereby authorize you to come together with the persons who are interesting themselves in same business. I recommend that you continue to interest yourself in this business and to communicate to me without delay all that concerns whatever relates to it.

MIGUEL R. DAVILA.

The Progressive Union of New Orleans, the cotton exchange, the Wholesale Grocers' Association, the New Orleans Board of Trade, and various other business organizations, as appears from these resolutions, took up the matter and, in view of the department's attitude, requested such change in the law as would permit this business to be done by the opening of these ports.

(The resolutions referred to follow:)

RESOLUTION OF THE NEW ORLEANS PROGRESSIVE UNION.

SIR: The New Orleans Progressive Union has endeavored, without result heretofore, to secure a ruling from your department permitting the importation of cattle from Central American countries to the United States via the port of New Orleans. As the matter now stands, such importations can not be had through any city of the United States south of Baltimore, and we feel we are justified in our claim that it is a grave injustice not only to this port but to the Mississippi Valley and Central States, particularly the packing districts of Central West.

For the purpose of placing this matter before you formally, a special meeting of the board of directors of the Progressive Union was held on November 20 and the following was unanimously adopted:

"*Resolved*, New Orleans Progressive Union, acting through its board of directors, is in favor of the Department of Agriculture giving permission for the importation of cattle from Central American countries, provided after investigation it is found these cattle are free from infectious diseases.

"*Further resolved*, That as there is no port for the importation of cattle on the Mexican Gulf at the present time that this Progressive Union shall petition the Department of Agriculture to establish the necessary facilities at this port for the importation of cattle as speedily as possible, and immediately thereafter declare this port to be a regular cattle port."

We trust to hear from you and eventually to secure the relief which we so earnestly desire.

Yours, respectfully,

NEW ORLEANS PROGRESSIVE UNION,  
By PHILIP WERLEIN, *President*.

HON. JAMES WILSON,  
*Secretary Department of Agriculture, Washington, D. C.*

DECEMBER 3, 1908.

HON. JAMES WILSON,  
*Secretary Department of Agriculture, Washington, D. C.*

DEAR SIR: I take pleasure in inviting your attention to the inclosed resolution of the executive committee of Wholesale Grocers' Association of New Orleans.

The importation of cattle from Central American countries, under proper restrictions of your department, is of much importance to the city of New Orleans, and I would therefore thank you to give this resolution your usual careful attention.

Yours, very truly,

GEORGE B. THOMPSON, *President*.

WHOLESALE GROCERS' ASSOCIATION OF NEW ORLEANS,  
*New Orleans, December 3, 1908.*

*Resolved*, The Wholesale Grocers' Association of New Orleans, through its executive committee, urges upon the Department of Agriculture the necessity of permitting the importation of cattle from Central American countries when, after investigation, it is found that no cattle diseases exist.

*Further resolved*, That the Wholesale Grocers' Association of New Orleans being interested in fostering trade relations with Central American countries, and in ameliorating the present unsatisfactory basis upon which business is conducted, through lack of facilities, strongly recommend to the Department of Agriculture the importance of a favorable ruling which will permit the opening of another avenue of trade tending to improve the conditions complained of in the foregoing.

*Further resolved*, That New Orleans, due to its recognized position and importance, should be made a port of entry for the importation of cattle.

Wherefore, it is the sense of the Wholesale Grocers' Association of New Orleans to petition the Department of Agriculture to declare this port such, and to establish such facilities as may be necessary for the proper conduct of this important branch of trade.

GEO. O. THOMPSON, *President*.

S. H. HERRING, *Secretary*.

C. W. MACKEE, *Chairman Executive Committee*.

NEW ORLEANS BOARD OF TRADE (LTD.),  
New Orleans, December 7, 1908.

HON. JAMES WILSON,  
*Secretary Department of Agriculture, Washington, D. C.*

DEAR SIR: The New Orleans Board of Trade, being interested in fostering trade relations with countries south of us, permits itself to urge on the Department of Agriculture the necessity of permitting the importation of cattle from Central American countries, for immediate slaughter, under proper restrictions, and when no cattle diseases exist in said countries.

For the past 20 years a large number of meat syndicates have sprung up in this country, with trade ramifications reaching out to all parts of the Union. The prime cattle raised in the Western States are taken up by these syndicates to supply the growing wants of our people for meat. The vast ranches of the Lone Star State are being taxed to the utmost to meet the constantly growing demand.

That the cattle supply is getting short, can hardly be gainsaid. Thousands of acres of grazing land are annually being converted into agricultural uses in Texas and other large cattle-raising States. Lands which heretofore furnished wonderful facilities for the economic raising of fine cattle are now being diverted to other agricultural and commercial purposes.

We therefore feel that if the necessary ruling can be obtained from your department, there is no doubt but that the immediate effect would be the formation of companies for the handling and transporting of these cattle to the American markets, and thus would a new and vast field be opened to our people without interfering, to any extent, with the profitable raising of cattle in any section of the Union.

We feel that a favorable ruling from your department, and that opening of the port of New Orleans to the importation of cattle, will be fraught with incalculable trade benefits for New Orleans and the South.

We therefore respectfully beg that you give this matter your usual careful consideration.

Yours, very truly,

HENRY B. SCHREIBER, *President*.  
H. S. HERRING, *Secretary*.

H. D. MELVIN, Esq.,  
*Chief of Bureau of Animal Industry, Washington, D. C.*

SIR: The undersigned, appreciating the importance of a favorable ruling on the part of your department upon the question of importing cattle from Honduras through the port of New Orleans, respectfully present this their petition. In so doing your petitioners base their request upon the following grounds:

First. The increase in customs receipts which would accompany the importation of the cattle.

Second. The benefits which would directly result from the creation of a trade balance in favor of Honduras, which would result in the exporting from the United States to Honduras of the natural and manufactured products of this country.

Third. The encouragement of reciprocal trading which would naturally follow the recognition of Honduran interests on the part of our Government.

Fourth. New Orleans being the natural entry port for goods imported from Honduras, due to its close proximity, position, and great advantages, our efforts are bent toward cultivating the friendship of Honduran business interests, and we accordingly feel that the interests of this port are involved in this issue.

Wherefore we respectfully ask that you give this petition and accompanying documents the consideration which we feel the great importance of the question and the satisfactory proof of the practicability of its accomplishment merit, and having done so, that you will rule favorably thereon.

UNITED STATES POST OFFICE,  
Office of Postmaster, December 7, 1908.

HON. H. D. MELVIN,  
*Chief Bureau of Animal Industry, Washington, D. C.*

DEAR SIR: I would respectfully state that there is a movement on foot to establish at this port a depot for the importing, under the law, cattle from Central American ports.

I profess that I am not familiar with the law governing such matters, but whatever may add to the growing commerce and industry of the port I, with others interested, am in full accord with the movement.

Very respectfully, yours,

THOS. J. WOODWARD, *Postmaster.*

Then petitions were circulated, numerously signed by commercial bodies in New Orleans, including all of the large business houses, banking concerns, and so on, requesting that there be a change in the law, and insisting that restrictions be placed for the protection of domestic cattle when permission was granted to permit these cattle to come into our country.

(Said petitions follow:)

H. D. MELVIN, Esq.,  
*Chief of Bureau of Animal Industry, Washington, D. C.*

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Third. The encouragement of reciprocal trading which would naturally follow the recognition of Honduran interests on the part of our Government.

Fourth. New Orleans being the natural entrepôt for goods imported from Honduras, due to its close proximity, position, and great advantages, our efforts are bent toward cultivating the friendship of Honduran business interests, and we accordingly feel that the interests of this port are involved in this issue.

Wherefore we respectfully ask that you give this petition and the accompanying documents the consideration which we feel the great importance of the question and the satisfactory proof of the practicability of its accomplishment merit, and, having so done, that you will rule favorably thereon.

J. Wers & Son, bankers; J. Wers & Co., cotton factors; Castell & Trefay, dealers in bonds and stocks; People's National Bank, Joseph Collins, president; People's Savings, Trust & Banking Co., Joseph Collins, president; The New Orleans Live Stock Exchange, T. J. Perrin, secretary; The Crescent City Stock Yard & Slaughter House Co. (Ltd.), by S. A. Trupans, vice president, acting president; I. L. Lyons & Co. (Ltd.); Jno. W. Phillips; United States Safe Deposit & Savings Bank, Geo. P. Agar, vice president; Interstate Trust & Banking Co., by Henry M. Young,

trust officer; Vaccara Bros. & Co.; Teutonia Bank & Trust Co. E. T. Buhler, president; Jos. A. Littlefield, stocks and bonds; Metropolitan Bank, A. G. Ricks, president; New Orleans National Bank, by A. Baldwin, jr., vice president; Canal-Louisiana Bank & Trust Co., by Charles Janvier, vice president; Commercial National Bank, by J. H. Fulton, vice president and manager; Bank of Orleans, by Edgar H. Roberts, president; The Commercial-Germania Trust & Savings Bank, by G. Ad Blaffer, vice president; German-American National Bank, by W. R. Irby, president; Morgan State Bank, A. A. Gray assistant cashier; City Bank & Trust Co., M. J. Sanders, president; Fredk. Leyland & Co. (Ltd.), M. J. Sanders, manager; Alfred Lesslane, agent Harrison Line steamers; A. R. Blakely & Co. (Ltd.), J. R. Blakely, president; Joseph Vregth, Cosmopolitan Hotel; Mexican-American Steamship Co., J. H. McFarlane, manager; The Leon Godchaux Co. (Ltd.), Charles Godchaux, president; S. Oteri & Co.; Oteri Steamship Line, J. D. Kenney, manager, Commercial Hotel; Anthony Frabacher, 137 Royal Street (Frabacher Restaurateur); La Glass Mirror Works (Ltd.), J. W. Weckerling, president; New Hotel Denechaud Co., Justin F. Denechaud, president; New Orleans Railway & Light Co., by H. A. Ferrandan, treasurer; The Hotel Grunewald Co. (Ltd.), Theo. Grunewald; Citizens' Bank of Louisiana, Geo. Nott, president; Chas. de B. Claiborne, Cosmopolitan Bank & Trust Co.; Hibernia Bank & Trust Co., L. M. Pool, vice president; Oliver H. Van Horn, dealer in machinery and supplies; New Orleans Butchers' Cooperative Abattoir Co., John B. Louis, president; United Fruit Co., C. H. Ellis, manager; Central American Steamship Co., Jno. B. Cefaltt, president.

A. D. MELVIN, Esq.,

*Chief of Bureau of Animal Industry, Washington, D. C.*

SIR: The undersigned, appreciating the importance of a favorable ruling on the part of your department upon the question of importing cattle from Honduras through the port of New Orleans, respectfully present this their petition. In so doing, your petitioners base their request upon the following grounds:

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Third. The encouragement of reciprocal trading which would naturally follow the recognition of Honduran interests on the part of our Government.

Fourth. New Orleans being the natural entrepôt for goods imported from Honduras, due to its close proximity, position, and great advantages, our efforts are bent toward cultivating the friendship of Honduran business interests, and we accordingly feel that the interests of this port are involved in this issue.

Wherefore we respectfully ask that you give this petition and the accompanying documents the consideration which we feel the great importance of the question and the satisfactory proof of the practicability of its accomplishment merit, and having so done that you will rule favorably thereon.

H. T. Cottam & Co. (Ltd.), F. Thom. Cottam; J. B. Camarade; J. & M. Schwabacher (Ltd.), per H. H. Schwabacher; Dwyer Bros. Co. (Ltd.), George Bagnetto, vice president, per P. H. Flynn; Josten & Bros. Co.; Finlay, Dicks & Co. (Ltd.), F. A. Dicks, president; B. Rosenberg & Sons; Lenn Pinver; Lehmann Dry Goods Co., G. Lehmann, secretary; C. Shauffer, El Shuman & Co. (Ltd.), Al. Terret, secretary and treasurer; Kohenchild Co. (Inc.), per Herman Well, first vice president; W. J. Martines & Bros.; Mieg. Brady & Lincoln Co. (Ltd.), C. K. Lincoln, secretary and treasurer; The Burkenroad-Goldsmith Co. (Ltd.), N. Pfiefe, secretary and treasurer; Wash Davie & Co. (Ltd.); Derry & Derry Co. (Ltd.), J. L. Derry; S. & F. Hatz & Co.; J. Aron & Co., by Hockstein; Albert Mackie Grocer Co. (Ltd.), per

Albert Mackie, president; C. H. Laurence & Co.; E. J. Hart & Co. (Ltd.), per E. J. Hart; Henry Blum; E. W. Del Brusie & Co. (Ltd.); J. Vldacovich & Co.; Jas. W. Ball; L. Frank & Co.; J. T. Beer & Co.; H. Goodman & Co.; John Meyer, 218 Poydras; J. C. J. Laux; L. Darrency Sons (Ltd.); Spansel Co.; Jno. Bomera & Co.; J. H. Menge & Sons (Ltd.), J. H. Menge, jr., secretary and treasurer; Wilmot Machinery Co., C. H. Neblett, secretary; C. T. Patterson Co. (Ltd.), W. P. Simpson, secretary and treasurer; C. S. Burt Co. (Ltd.), Angelo R. Burt, secretary and treasurer; Woodward Wight & Co. (Ltd.), by J. D. O'Keefe, vice president; American Coffee Co. of New Orleans (Ltd.), per M. F. Ker, vice president; John H. Murphy Iron Works; A. S. Lascelles & Co., per E. Martinez; Jno. T. Gibbons; Whitney Supply Co. (Ltd.), Penel; Meade & Sampsell, per L. D. Sampsell; Dixie Brewing Co., per Robt. L. Lambert, secretary; Jackson Brewing Co., Laurance T. Fabriches, president; Weiss, Frank & Co. (Ltd.), Chas. A. Weiss, secretary and treasurer; Kohlmann Bros. & Sergaman; The Smith Bros. Co. (Ltd.), J. B. Sinnott, president and general manager; Geo. Mallard Co. (Ltd.), J. H. Majean, secretary; C. A. Dumsers Co.; Barnett & Lemle (Ltd.), by E. Lemle, secretary and treasurer; Edward Bros.; Louisiana Produce Co. (Ltd.), Chas. B. Sarffs, secretary and treasurer; S. Pfeifer & Co.; Jac. Bokenfohr Co. (Ltd.); Hillery-Kelly Co. (Ltd.), P. J. Kelly, treasurer; Chas. Stitch & Son; Kelly & Zoeller; J. C. Morris Co. (Ltd.), Jerome Hirsch, treasurer; B. H. Haspollen Sons; The Henry Lochte Co. (Ltd.), Thos. J. Small, jr.; The Parker-Blake Co. (Ltd.), by C. C. Johnson; Parker-Fain Grocery Co. (Ltd.), by J. B. Fain, president; M. Tedem Co. (Ltd.), J. T. Brown, vice president; Chas. H. Adams Co. (Ltd.), per Edwin Z. Adams, president; Sam Blum; A. S. Kottwitz Co.; Geo. W. Davison & Co.; E. F. Kohnks; Schmidt & Zeigler (Ltd.), Chas. W. Zeigler, president; Simonds Manufacturing Co. (Ltd.), G. K. Smith, secretary; Miller-Elmer Manufacturing Co. (Ltd.), per A. J. O. Elmer, treasurer; Stephen D. Anco; Jac. Skecht; Henry B. Christer & Bro.; Jos. Chalour Co.; Ac. Di Maggio & Co.; Great Auction Co.; Southern Moline Plow Co., R. M. Langron; Rolling-Alcklen Co. (Ltd.), Aug. L. Daparain, secretary and treasurer; Wm. P. Burke, vice president; Haublmann & Loeb Co. (Ltd.), Ernest M. Loeb, treasurer; C. O. Freeman; New Orleans Foundry & Iron Co., per O. H. Schwartz; Ellis H. Chalmers & Co., per F. W. Slevins; Consumers' Coffee Co. of New Orleans (Ltd.), Geo. B. Haydel, president; Gibbens & Wrean; Adams, Beck & Co. (Ltd.), per E. C. Adams, president; Merchants' Coffee Co. of New Orleans, B. C. Curances, president; Bancroft, Rossor & Sinclair Co., G. E. Ross, president; Standard Brewing Co., Theo. McGunnis.

Of course, being myself very much in favor of the work that was being done for the eradication of ticks in the southern country, I was and am still very anxious that all safeguards be thrown around the importation of these cattle, so as not to permit any diseased cattle to be brought in and no new diseases disseminated among the southern herds. It was not until 1909, the tariff act of that year, that there was a change made in the law in regard to the restriction of the importation of cattle from tick-infested sections. Section 12 of that act reads:

That the importation of neat cattle and the hides of neat cattle from any foreign country into the United States is prohibited: *Provided*, That the operation of this section shall be suspended as to any foreign country or countries, or any parts of such country or countries, whenever the Secretary of the Treasury shall officially determine and give public notice thereof, that such importation will not tend to the introduction or spread of contagious or infectious diseases among the cattle of the United States; and the Secretary of the Treasury is hereby authorized and empowered, and it shall be his duty,

to make all necessary orders and regulations to carry this section into effect, or to suspend the same as herein provided, and to send copies thereof to the proper officers in the United States and to such officers or agents of the United States in foreign countries as he shall judge necessary.

The Underwood tariff bill has the same provision in it, so that the law was not changed by the adoption of the new tariff bill. I went to the then Secretary of the Treasury and urged that this section of the act of 1909 permitted him to authorize the removal of the inhibition, because the legislation prohibits, as you will note, and then vests discretion in the Secretary of the Treasury to remove the inhibition whenever, in his judgment, it is found that the importation of cattle from any given section of these countries would not tend to jeopardize the American herds. The Secretary of the Treasury listened to my argument, agreed with me that he had that discretion, but said that he had no means to ascertain whether or not the importation of these cattle would not spread contagious or infectious diseases among the American herds. That while Congress had given him discretion to issue a proclamation removing the inhibition, it had failed to furnish any means by which he could ascertain for himself the facts upon which he could issue such a proclamation. He said that the Bureau of Animal Industry, under the Secretary of Agriculture, had a medium by which they could ascertain the condition of foreign cattle, and advised me to take it up again with the Secretary of Agriculture. I took it up with Mr. Wilson, Dr. Melvin, Mr. Hays, and, I believe, Dr. Galloway. They contended that the law did not give them the discretion, but gave it to the Secretary of the Treasury, and that they could not exercise a discretion which Congress had given to some other branch of the Government. They further contended that they did not have the means with which to make the investigation, because the moneys allotted to them for work in the cattle industry was limited, and, therefore, the law would have to be changed, even though I was right in the contention that they had the discretion I claimed for them. I suggested that possibly it could be arranged that if some country was willing to pay the expenses that the Secretary of Agriculture could send his experts to make the necessary investigation. The Secretary said he would consider it if the request came from any of these foreign Governments.

The CHAIRMAN. As a matter of fact, the Secretary of Agriculture undoubtedly has authority to send his experts into any country now.

Mr. BROUSSARD. He has, in my judgment, and he might have exercised that authority at the time, but he claimed he did not have the means with which to do it.

The CHAIRMAN. It was a question of the lack of money?

Mr. BROUSSARD. Yes, sir. So the President of Honduras—

Mr. SLOAN (interposing). Has he not the means now? Is not that already provided for?

The CHAIRMAN. I do not know.

Mr. BROUSSARD. He did not have at that time; I do not know about now.

Mr. SLOAN. I know they are sending men down there; Dr. Melvin was sent down to the Argentina Republic.

Mr. McDERMOTT. Did not Dr. Melvin go to South America, his expenses being paid out of the contingent fund of the department?



Mr. BROUSSARD. I imagine the Government paid his expenses, because it was an investigation in the interest of the service.

The CHAIRMAN. Oh, yes; undoubtedly.

Mr. BROUSSARD. But at that time there was no money. I suggested to the consul in New Orleans, or, rather, to the attorneys who represented the Government of Honduras in New Orleans—Saunders, Dufour & Dufour—of which firm Judge Saunders, brother of the Member from Virginia, being one of them, that if they could get the money from Honduras to defray these expenses, I believed the Secretary of Agriculture would send cattle experts down there and have these herds examined. Inquiry revealed the fact that the Secretary thought \$1,000 gold would pay the expenses, but, as a matter of fact, he sent back a check for \$200 or \$300, the cost being about \$700 or \$750. Mr. Wilson sent Dr. Thompson and a gentleman named Downing, from Wisconsin. They went to Honduras and made a very thorough investigation of each Province, the governor of which had written stating that they had no disease among their cattle. I was myself in Honduras on business, and met them both on the Atlantic side of Tegucigalpa and afterwards on the Pacific coast. They made a very thorough examination into the matter. I have here a copy of the report—this report has never been published, so far as I am aware—of the condition of the herds there. The report is very interesting in that it shows a great number of cattle that are available in those countries for market, both as feeders to supply the farmers of this country and for meat by immediate slaughter in southern ports; and it shows the prevalence of no disease of any kind or character there except that the cattle have ticks.

Mr. DOOLITTLE. Does the report show the kind of cattle—that is, the quality of the cattle?

Mr. BROUSSARD. Yes; they are the same kind of cattle that were in Texas before they improved the herds there, although they are naturally heavier than the old Texas cattle, because they are mountain cattle and have better water in that country than can be found in Texas; because those mountain ranges are supplied with plenty of water, plenty of limestone, and the cattle naturally grow larger. But they have brought no improved stock into that country for hundreds of years. They made one effort, but the cattle died from the effects of ticks.

The CHAIRMAN. How long is that report?

Mr. BROUSSARD. I would like to get the report in the record. I do not think I would like to read it all, but I want to get it published, because it has never been published. I can read the summary made by Mr. Hays, then Acting Secretary of Agriculture, after he had gone over the report, and the reason given for not permitting these cattle to come into this country:

AUGUST 17, 1910.

HON. R. F. BROUSSARD,  
*New Iberia, La.*

DEAR SIR: I beg to advise with regard to the investigation of livestock conditions and animal diseases in Honduras, Central America, which has recently been made by Dr. William Thompson, veterinary inspector, and Mr. James E. Downing, agent of the Bureau of Animal Industry of this department, that Dr. Thompson has reported, as a result of his investigations, that the cattle tick, carrier of the infection of southern or splenetic fever, exists throughout Honduras, and that the cattle of Honduras harbor the specific germ of southern

or splenetic fever; also, that the cattle losses sustained from the ravages of the tick in all sections are the most frequent and serious of all, this constituting the one great cattle plague of the country.

That is the only thing they found there that would hinder the free importation of these cattle.

That the tick of Honduras is the cattle-fever tick, shown by the successful and profitable shipment of cattle from Honduras to Cuba, where the tick likewise abounds, and that of a shipment of bulls from Chicago to Truxillo, all but one having died shortly after arrival, which indicates that the disease is probably communicated to susceptible cattle when taken to Honduras from a non-tick-infested section of country.

It would therefore seem that the presence and prevalence of the cattle tick throughout Honduras will prevent the importation of cattle from that country into the United States, as such importation is prohibited by law; see section 6 of the act of Congress of August 30, 1890, which is here quoted for your convenience.

Now, section 6 of the act of August 30, 1890, was a section which the department claimed vested no discretion in the Secretary, but, as you see, that section had been superseded by section 12 of the act of 1909, which gave that discretion to the Secretary of the Treasury, if, indeed, that discretion did not exist prior to 1909. And the department has persisted all of the time in quoting a section of the law which has been repealed by a subsequent section as its basis for holding that it had no authority at all to permit the importation of these cattle.

(The report referred to follows:)

NEW IBERIA, LA., *September 1, 1910.*

HON. W. M. HAYS,

*Acting Secretary Department of Agriculture, Washington, D. C.*

DEAR SIR: Referring to your letter of the 17th ultimo, in re the report of Dr. William Thompson on his investigation of cattle in Honduras, I would like very much for you to transmit to me a copy of the doctor's report, as I am anxious to ascertain all details embodied therein.

Your prompt attention will be greatly appreciated.

Yours, very truly,

R. F. BROUSSARD, M. C.

DEPARTMENT OF AGRICULTURE,  
OFFICE OF THE SECRETARY,  
*Washington, D. C., September 15, 1910.*

HON. R. F. BROUSSARD,

*New Iberia, La.*

DEAR SIR: Referring to your letter of September 1, you will please find herewith inclosed a copy of the report made to the Chief of the Bureau of Animal Industry, of this department, by Dr. William Thompson, of that bureau, concerning the investigation made of live-stock conditions and animal diseases in and throughout Honduras, Central America, from March 29 to July 7, 1910, as per your request.

Very respectfully,

MILLER L. MOORE, *Acting Secretary.*

REPORT ON INVESTIGATION OF LIVE-STOCK CONDITIONS AND ANIMAL DISEASES IN AND THROUGHOUT HONDURAS, CENTRAL AMERICA, FROM MARCH 29 TO JULY 7, 1910.

UNITED STATES DEPARTMENT OF AGRICULTURE,  
BUREAU OF ANIMAL INDUSTRY,  
*Washington, D. C. August 6, 1910.*

CHIEF OF BUREAU OF ANIMAL INDUSTRY,

*Washington, D. C.*

SIR: As outlined in your instructions, dated March 16, 1910, relative to the above investigations, the object of the trip was to determine what diseases of

animals are prevalent in Honduras, and the location and extent of such diseases, including southern cattle fever.

On arriving in Honduras, the first thing to be done was to ascertain what department or districts were noted for the number of cattle raised, and to formulate a plan or outline of the territory which should be covered, with a view to arriving at correct conclusions respecting live-stock diseases, as applies to the entire country at large.

#### ITINERARY.

It would appear from information derived from several sources that most of the cattle were to be found in the Department of Choluteca on the south or Pacific side of the country and the Department of Olancho on the southeast side, with here and there small isolated cattle districts or valleys. This information proved in the main to be correct. It was determined then that after making the inspections of cattle in a representative locality in the Department of Cortes that by following a route having for its destination Choluteca on the south coast, going and returning via the capital, Tegucigalpa, thence through the Department of Olancho to Truxillo, Ceiba, and return to port of Cortes, would cover sufficient territory and enable us to accomplish the object in view. This plan was adopted and followed, and I am fully satisfied that the extent of the territory covered served the purpose of the expedition, and that no further gains or added knowledge would have been acquired by covering the Departments bordering on Salvador and Guatemala. A detailed report and map of the places visited and the travel performed is attached hereto.

#### MODE OF TRAVEL.

The word "Honduras" signifies, in the Spanish, depths or holes, and it very appropriately applied to the country bearing that name, as barring small areas on the Caribbean Sea and Pacific Ocean, the topography of the entire country is made up of mountains and the depths between them. Owing to the sparse population and the natural topographical obstacles, wagon roads and railroads are very few, short, and limited to the coast districts, so that practically all travel in that country is performed by the use of the small but sure-footed native mule. Our expedition was provided with these animals through the departmental and local officials, who virtually commanded private parties to furnish them, and the fact of their being loaned did not always insure comfortable mounts, more often the reverse was true. Forage being scarce and travel very trying for the beasts, it was necessary to obtain fresh mounts and pack animals from time to time, and, as may be readily imagined, loaned animals were not always provided or delivered at the specified or expected hour, so that despite the apparent loss of time, inconvenience, and annoyance, consequent on such delays, it was necessary, in order to husband and preserve health and strength to exercise patience, maintain equanimity of temper, and submit philosophically to the inevitable.

The ground was gone over as rapidly as possible, consistent with making proper inspections and obtaining all possible information at each place pertaining to the object in view, at the same time bearing in mind the foolhardiness of making any extraordinary rides with their consequent and inevitable overexhaustion, thereby placing one's vitality and resistance to disease at a low ebb, thus lessening interest and discouraging activity in the work at hand.

#### METHOD OF MAKING INSPECTIONS AND OBTAINING INFORMATION.

The plan followed was to visit one or more representative ranches in each cattle district, inspect the cattle thereon, and to question the owners regarding the prevalence and nature of any disease existing in the locality, and ask them to describe the symptoms. On such inspection trips we were usually accompanied by the governor of the Department or mayors of towns and several representative stockmen, and while it must be recognized that very little attention is paid to the ailments of live stock in Honduras, I will add that I fully believe that all of the officials and persons interviewed on the question of diseases of live stock in Honduras gave free and unreserved replies, as far as their observations permitted. Besides the inspections made in representative districts, casual inspections were made of many hundreds of cattle encountered by the wayside while journeying from place to place. By a casual inspection is

meant that a view was had of the cattle by the wayside to determine the presence of ticks or disease.

#### PASTURAGE.

Most of the pasturage in Honduras consists of native or wild grasses, and during the summer or dry season the natural range is considerably overstocked, the cattle being, at the time of our visit, in very poor condition for want of sufficient forage. On the coast lands and in the interior small valleys "guinea" and "para" grass grow well where planted and provide a plentiful and fattening forage. Honduras, owing to the mountainous nature of the country, is splendidly watered. Numerous small streams of pure mountain or spring water abound everywhere, practically all parts of the country being so favored.

#### CLIMATE.

Away from the coast lands the climate of Honduras is exceptionally healthy and agreeable. Days are comfortably warm, but never excessively hot, the nights being invariably cool and conducive to restful sleep.

#### HONDURAS CATTLE.

The cattle of this country are the degenerated descendants of the cattle introduced by the Spaniards. For lack of effort toward making any improvements, either by careful selection of common-bred stock or by importations from abroad, the cattle of the country are small, slow to reach maturity, thin flesh, and resemble the early type of Texas cattle, except that as the male animals are not castrated until 3 or 4 years of age, they have short, heavy foreheads and short, thick horns; in fact, are staggy in appearance and quality. The cows more closely resemble the early type of Texas cow, but are smoother in form. The range in Honduras being restricted by the rough contour of the country, the cattle have not run so much to limb and horn as cattle do on the plains of Texas and other countries. Steers 4 to 5 years old weigh, grass fat, on the average of about 1,000 pounds live weight, the largest of them yielding from 400 to 450 pounds of meat. Little attention is paid to the management of cattle, the estimated annual net increase being placed at only 12 per cent, the losses being attributed to the ravages of cattle tick, screw worms, and the depredation of feral animals, such as the leopard, puma, and wild cat.

#### IMPORTATIONS OF CATTLE INTO HONDURAS.

A few cattle have been imported into Honduras from the United States, but not in sufficient numbers nor with the necessary persistence to produce any noticeable improvement in the native cow. One shipment of bulls from Chicago, made some years ago, ended disastrously to the importers, as all but one of the bulls died shortly after arrival.

In the Department of Olancha, some of the cattle, locally known as "chinas," have some of the characteristics of Indian or Bramah cattle, in that the hair is very short, the tail fine and attenuated, and some have a large dependent dewlap. However, there seems to be no known history of any importations of such stock, but it may be that a few head of such animals were imported in remote times from some of the West Indies.

#### EXPORTATIONS OF CATTLE FROM HONDURAS.

From the year 1882 to within recent years it has been stated that large numbers of Honduras cattle were exported to Cuba. Of late years this trade has been totally suspended, due to the complete restocking of Cuba. A small trade in Honduras cattle is being carried on with Salvador, Guatemala, and British Honduras, and it is possible that some may be shipped to Costa Rica. It is estimated that 30,000 head of steers could be annually exported from Honduras.

#### FOREIGN CATTLE CROSSING THE TERRITORY OF HONDURAS EN ROUTE TO OTHER NEIGHBORING COUNTRIES.

It was stated that cattle from Nicaragua have been trailed across the Department of Choluteca and Valle, to Salvador, for sale in that country. This

trail was pointed out to me while on the south coast. It was also stated that cattle from Nicaragua had been trailed from that country through the Departments of Olancho and Colon to Truxillo for export to Cuba, that such cattle first introduced the fever tick in Olancho. In this connection, it is well to remark that were Honduras cattle permitted entry into the United States for shipment either from Pacific or Caribbean ports, it appears to me that there could be no satisfactory safeguards or assurance provided against the exportation of Nicaragua cattle from Honduras territory as Honduras cattle. In a more limited sense the same may be said of cattle from Salvador and Guatemala, although it is understood that these countries have few if any cattle to export.

#### DISEASES OF HONDURAS CATTLE.

As determined by the inspections made and from the general unanimity of replies to questions asked of Honduras cattlemen, it appears that the ordinary cattle tick, or the variety known as the margaropus—, exists in and throughout Honduras, and that the losses sustained from the ravages of this tick in all sections are the most frequent and serious of all, constituting the one great cattle plague in that country. That Honduras cattle harbor the specific germ of southern fever can not be refuted, as a continued and profitable business extending over some years could not be carried on by shipping nonimmune cattle from Honduras to Cuba. Moreover, the shipment of bulls from Chicago to Truxillo, all but one of which died shortly after arrival, further indicates that southern fever infection is carried in the blood of Honduras cattle, and can be and is transmitted by the variety of ticks there present. Hondurans, while admitting that the tick causes severe losses of cattle, especially during the dry season, and when the animals are heavily infested, still maintain that the tick in question is not the infectious variety. This assertion is natural and pardonable, and readily understood when consideration is given the fact that all the cattle are immune, and that very few nonimmunes had been introduced into that country, and that the death of the latter has been attributed to the change of climate and forage.

In respect to the type and management of cattle, as well as to the presence of ticks and southern fever infection, the conditions obtaining in Honduras may be generally applied to the neighboring countries of Salvador, Guatemala, British Honduras, and Nicaragua.

*Blackleg* among calves is found to be prevalent in the Departments of El Paraiso and Olancho.

*Anthrax*.—During the months of July and August, when there are pools of stagnant surface water, it is stated that quite a few cattle, horses, and mules drop dead, and that other animals subsequently grazing over these parts likewise become affected, which fact would indicate the presence of the anthrax infection; the disease caused by it in that country being known as "morifia."

*Mycotic stomatitis*.—When vegetation is at its rankest growth, toward the end of the rainy season, isolated cases of sore mouth and feet occur among cattle, and is attributed to the bites of spiders. It is cured by rubbing the tongue with salt and lemon or vinegar. Contagious foot-and-mouth disease appears to be unknown in Honduras, and to the best of my knowledge and belief, has never existed, nor does it now exist in that country.

*Tuberculosis* among cattle in Honduras is unknown.

*Actinomycosis* is quite prevalent in the Departments of Valle and Choluteca, and is attributed to the bite of a small green snake.

*Fasciola hepatica*, or *liver fluke*, are found in cattle coming from overflowed lands and lowlands.

#### DISEASES OF HORSES.

Hundreds of horses and mules were encountered during our stay in Honduras but not one case of glanders, farcy, or mycotic lymphangitis was seen. These animals are said to be affected at times with a discharge from the nostrils, accompanied by enlarged submaxillary lymphatics, of which disease some of them die. Distemper is also recognized, and doubtless during the torrential rains some of them contract pneumonia.

*Gangrenous dermatitis* also affects the feet of horses and mules, in some causing the hoofs to drop off. This disease is also attributed to the spider bite.

Some cases of mange were seen in horses and mules, but this disease does not seem to affect cattle or sheep in that country.

With the exception of the two latter diseases, practically all ailments of horses are known as "topi." At one time while in the Department of Olancho I began to think that some of these cases of "topi" might be some form of fever, due either to trypanosomiasis or to the infection pernicious anemia. Two so-called cases of "topi" were brought for examination, both having slight nasal discharge, one of which had a temperature of 104° F. Five cubic centimeters of blood was taken from the latter case, the same was inoculated in a dog, which we trailed along and kept under observation for 15 days, without its manifesting any systemic disturbances or rise of temperature. Blood smears taken from this horse and examined in the laboratory proved negative for blood parasites. Diligent inquiries were made with respect to the disease known as "topi" in order to ascertain whether any form of trypanosomiasis exist in Honduras. From the information obtained, observations and experiments made, taking into consideration the fact that large numbers of horses and mules, as well as cattle, grazed the tabanus infested territory, I do not believe that there is present in Honduras any form of trypanosomiasis, resembling surra, or that is pathogenic for domestic animals.

#### DISEASES OF SHEEP AND GOATS.

There are a few small scattered bands of sheep and goats in Honduras, and those which graze on low or wet lands are said to be attacked by foot rot.

Swine of the long-headed razorback general scavenger type appear to be troubled only by cysticercus cellulose, which affection, with its concomitant "tenia solium" in man, is quite prevalent in Honduras, and the cysts in the hogs are there known as trichinosis.

An outbreak of chicken cholera was observed in chickens at Tegucigalpa.

#### OFFICIAL KNOWLEDGE OF CATTLE DISEASES BY THE HONDURAS GOVERNMENT.

As before stated, very little attention is paid to live-stock ailments in Honduras, and up to the time of our investigation no efforts had been made by that Government to ascertain the nature or extent of the animal diseases which may exist in that country. Dr. Salvador Moncado (D. V. M.), a graduate of the University of Pennsylvania, 1909, holds the official position of Government veterinarian for Honduras, and made his first inspection trip with us from Tegucigalpa to Choluteca and return, and up to that time he was not aware, nor had he taken pains to ascertain whether any other species of cattle tick other than amblyomma cajennense existed on Honduras cattle. His first acquaintance or recognition of the margaropus ——— occurred while observing our work on the trip referred to.

As to making arrangements with the Honduras Government to report monthly on the outbreaks of diseases in that country, no steps were taken in this matter, inasmuch as that Government does not now appear to have any competent or practical person in its employ who could make practical and reliable investigations and reports on diseases and conditions contained there, and the same may be said of inspections and certificates for export stock.

#### INTEREST GENERAL IN WORK OF EXPEDITION.

Widespread and unusual interest was manifested by all classes of people in Honduras, in the object of the expedition, and the decision will be anxiously awaited. We were besieged with questions as to whether in our judgment a favorable decision would be given, the inquiries assuming that we carried the "yes" or "no" in our hands. If the decision is to be favorable, some of them want to know for speculation reasons. Others more interested in the welfare of Honduras hope to see a favorable decision given, so that the purchasing and consuming power of the people may be increased and reciprocal trade and exchange with the United States be increased and facilitated.

In conclusion I would state that the Government of Honduras and its officers high and low gave us every assistance and most cordial attention during and throughout our journeys in that country.

Very respectfully,

WILLIAM THOMPSON,  
Veterinary Inspector.

Let me say, from personal investigations of this matter in Honduras, that while there are ticks there, they are not nearly as plentiful nor nearly as abundant as they are in my own State or in all sections of the South south of the thirty-second degree of north latitude, where they have not been cleaned out. The pastures there are burned every year in order to get new grass, because the grass grows in such great profusion that the cattle can not take care of it. The grass dries at the top, and they burn all the forests every year. During the dry season in that country you are never out of the sight of smoke. If you go through that country as I have four or five times, traveling from the Caribbean Sea to the Pacific Ocean, you will never be out of sight of smoke at certain seasons, though possibly you might not see a single inhabitant in a day's travel of 40 or 50 miles. As I say, they burn the forests every year, and, of course, they destroy the ticks in very great quantities. However, that is not the purpose of the burning, because they have never made any effort to destroy the ticks. This partial destruction of ticks results from the efforts to secure good pasturage. It is not done for the purpose of their destruction, because it is not feasible to destroy ticks thoroughly or effectually in that way, but it is done for the purpose of getting a new growth of grass. For days at a time I have examined cattle on the roadside or on the trail and on hundreds I was unable to discover one tick. I do not say they are not there, but I want to point out how easy would be their eradication and have these cattle brought here and help supply the demands of the meat market of this country. Of course, my interest in this matter is enhanced by the fact that we are expecting in the section of the country where I come from to engage in cattle production and to engage in the fattening of cattle. We came before this committee and this committee was kind enough to allow \$50,000 for experimental work in the sugar district of Louisiana. We have great scarcity of cattle from which to start herds down there, and we would like to get these cattle under such restrictions as would secure the protection of the native herds, such restrictions, rules, and regulations as would not permit the spread of any disease of any kind or character from these imported cattle into our southern ports. If these cattle could be imported it would give us an opportunity to get an additional supply of cattle in order to carry on this new work. I believe the people in the West, where they fatten cattle, find the same difficulty of obtaining the cattle necessary to carry on their work of fattening for the stockyards of the North.

Before I go any further I would like to offer telegrams from business organizations and men recently sent to me asking that these southern ports be opened, and opened as promptly as it is possible to open them under proper safeguards.

(Said telegrams follow:)

NEW ORLEANS, LA., March 2, 1914.

HON. ROBT. A. BROUSSARD,  
*Care House of Representatives,*  
*Washington, D. C.:*

We are all so very much interested in the opening up of this port to the importation of cattle that I am prompted to suggest the modification of your bill to include Mexican cattle alone at this time. Only later on it will be easy for you to incorporate Central and South America as well.

With best regards,

ALEX. PUJO.

NEW ORLEANS, LA., March 2, 1914.

HON. ROBT. F. BROUSSARD,  
*Washington, D. C.:*

The opening of this port to the importation of cattle is very important to this city and should be accomplished as quickly as possible. Would it not expedite passage of your bill to eliminate for the present all but Mexican cattle?

CITY BANK & TRUST CO.,  
 JOHN LEGIER, Jr., *President.*

NEW ORLEANS, LA., March 2, 1914.

HON. R. F. BROUSSARD, M. C.,  
*Washington, D. C.:*

Hear there is considerable opposition to your bill to open port of New Orleans to cattle from Mexico and Central and South American countries because believed too sweeping. Bill would be of great benefit even if restricted to Mexican cattle. It would be entering wedge. Suggest this amendment. Is opposition to bill in present form strong enough to endanger passage? Hope you will push bill with your usual vigor.

L. E. HALL,  
*Governor of Louisiana.*

NEW ORLEANS, LA., March 2, 1914.

HON. ROBT. F. BROUSSARD,  
*House of Representatives, Washington, D. C.:*

We deem it important that the port of New Orleans be opened to the importation of cattle and, if necessary, if we have to first take it from Mexico and leave the balance to be worked out later. If this meets with your views, we would appreciate your hearty cooperation.

HIBERNIA BANK & TRUST CO.

NEW ORLEANS, LA., March 2, 1914.

HON. ROBERT F. BROUSSARD,  
*House of Representatives, Washington, D. C.:*

Impression prevails here in certain quarters that there would be more chance of final passage of your bill providing for importation through this port of foreign cattle if it contemplated alone the importation of Mexican cattle. Allow me to respectfully suggest this modification, and later on this feature could be used as an entering wedge for the further extension of territory.

MARTIN BEHRMAN.

NEW ORLEANS, LA., March 3, 1914.

HON. ROBERT F. BROUSSARD,  
*House of Representatives, Washington, D. C.:*

Our people are anxious to have this port opened to the importation of foreign cattle, and believe that if you would simply ask at this time for the admission of Mexican cattle there would be more of a chance of accomplishing part of the object. Our exchange eager for result.

ERNEST A. CARRERE,  
*President Real Estate Exchange.*

Let me submit, hurriedly, the correspondence I have had with the department in order that we may have thoroughly this subject before us. Here is another letter in reply to one of mine in 1910, the department taking the position that it lacked legal discretion to permit the importation of cattle from those countries.

(Said letter follows:)

FEBRUARY 21, 1910.

HON. JAMES WILSON,  
*Secretary of Agriculture, Washington, D. C.*

DEAR SIR: Referring to our conversation of last Saturday, and your request that I put in writing the subject of the inquiry which I was then making, I beg to submit herein the following:

Section 12 of the tariff act of August 5, 1900, relates to the importation of neat cattle. The proviso of the section relates to the manner in which the



prohibition, fixed in the law in regard to the importation of these, is obviated; and the method of proceeding is that the Secretary of the Treasury shall officially determine and issue his proclamation permitting the entry of both neat cattle and hides, when such importation will not tend to introduce or spread contagious or infectious diseases among cattle in the United States.

By department circular No. 52, Division of Customs, Treasury Department, the Acting Secretary of the Treasury has issued a proclamation, in accordance with said section 12 of the act heretofore referred to, admitting the importation of cattle from Great Britain, etc., including Mexico.

I learned, while in Mexico several times last year, that cattle from Mexico are excluded from entry into this country. Upon inquiring, I am informed that they are excluded by your department. Kindly let me know under what law of Congress, or under what rules and regulations of your department, are these cattle excluded from entry into the United States, in view of the proclamation of the Secretary of the Treasury.

If the exclusion is by virtue of the rules and regulations of the department, please send me a copy of such rules and regulations through which you exclude these cattle.

Kindly furnish me with a list of the States of Mexico, or sections thereof, to which these rules and regulations, if any there are, apply.

Section 12 of the act heretofore referred to, in the proviso, says: "The Secretary of the Treasury shall officially determine, and give public notice thereof, that such importation will not tend to the introduction or spread of contagious or infectious diseases among the cattle of the United States."

If cattle in any section of Mexico are infected with ticks, why can not such cattle be imported into the United States provided they are slaughtered immediately thereafter in a territory where cattle are infected with ticks? And why can not such Mexican cattle infected with ticks be permitted to graze in a territory of the United States wherein the cattle are infected with ticks?

Again, why can not cattle which are free from ticks and found so upon an examination by United States veterinary surgeons, from a quarantine district in Mexican territory, be admitted for grazing south of the quarantine line in the United States?

As to South and Central America: What quarantine stations have been fixed by you with regard to the importation of cattle for slaughter or otherwise into the United States from South and Central America? What from Canada? What from Mexico?

Are there any quarantine stations for the inspection of cattle entering the United States, under the proclamation of the Secretary of the Treasury, which is referred to above, in the south Atlantic ports or in the Gulf ports? If so, kindly name the ports.

What quarantine stations have been established in the north Atlantic, the Canadian coast on the Pacific, and the object thereof?

You can understand, Mr. Secretary, that my purpose in inquiring into these matters is due to the exorbitant price of meat in this country, against which the consumers of the land are protesting in every way possible, including total abstinence from the consumption of meat. This is the primary reason; but more important, possibly, to the people of my section of the country is the fact that the rice producers of Louisiana and Texas, the development of which industry you have probably done more than any individual, have an important by-product which now goes to waste—the second growth of rice after the crop has been harvested.

I notice in the papers that the western farmers utilize such by-product of the farm in fattening cattle for the market. Why can not our rice farmers utilize this by-product, thus enhancing the profit of their farms and cheapening the price of meat to the consumers?

You can understand that, if their cattle already have ticks, other tick cattle brought in among them can not possibly damage them; whereas this by-product can not be utilized by shipping northern cattle into these fields because such cattle, you contend, would die of Texas fever if they were brought down there.

I am submitting these questions to you in all good faith, and have always in sight the public good of the people of this country. I know that you will give this matter your consideration, and if, in your judgment, the law does not warrant the contention that I made to you Saturday, I wish that you would add to the information that you give me what action Congress may take to permit you to effect these much-needed changes.

Very respectfully,

R. F. BROUSSARD,  
*Member of Congress from Louisiana.*

DEPARTMENT OF AGRICULTURE,  
OFFICE OF THE SECRETARY,  
Washington, D. C., March 1, 1910.

Hon. R. F. BROUSSARD,  
*House of Representatives.*

DEAR SIR: Referring to your letter of February 21, relative to the laws and regulations governing the importation of cattle into the United States from foreign countries, it will be noted that section 12 of the tariff act of August 5, 1909, is a reenactment of the act of July 24, 1897, doing away with the necessity of a proclamation by the President in determining the countries from which importations of cattle can be made, by providing for the suspension of the prohibition, when the Secretary of the Treasury shall officially determine, and give public notice thereof, such notice being published on recommendation of this department. The prohibition, therefore, having been suspended by the issuance of Treasury Department Circular No. 52, Division of Customs, 1909, so far as the importation of cattle from Great Britain, Ireland, and the Channel Islands, and the countries of North America, including Mexico, is concerned, cattle are eligible for importation from these countries under the regulations of this department, as contained in Bureau of Animal Industry Order No. 142, copy herewith, regulation 11 of which provides:

"Any person contemplating the importation of cattle, sheep, and other ruminants and swine, from any part of the world except North America, must first obtain from the Secretary of Agriculture, two permits, etc."

North America includes Mexico and Canada. A permit from these countries is not required, but regulations 34 to 44 cover the different kinds of stock that would be imported from Canada, and regulation 45 to 52 those that would be imported from Mexico.

Regulation 48 provides that cattle for immediate slaughter may be admitted when, by inspection, they are found free from disease, whereas cattle brought in from Mexico for grazing would be subject to the provisions of regulation 46. Cattle for importation from Mexico, for immediate slaughter, which pass a satisfactory inspection, as required by regulation 48, can be admitted for slaughter, while those for grazing or feeding would be subject to regulation 46.

It will be seen that in order for these animals to pass a satisfactory inspection they must be free from ticks, which ticks carry the infection of disease; and, furthermore, they must meet the requirements of the law as contained in section 6 of the act of August 30, 1890, to wit:

"That the importation of meat cattle, sheep, and other ruminants, and swine, which are diseased, or infected with any disease, or which shall have been exposed to such infection within sixty days next before their exportation, is hereby prohibited; and any person who shall knowingly violate the foregoing provision shall be deemed guilty of a misdemeanor, and shall, on conviction, be punished by a fine not exceeding five thousand dollars or by imprisonment not exceeding three years, and any vessel or vehicle used in such unlawful importation with the knowledge of the master or owner of said vessel or vehicle that such importation is diseased or has been exposed to infection as herein described, shall be forfeited to the United States." (26 Stat. L., 416.)

Cattle are permitted entry at certain border points, from Mexico, on inspection, when they meet the requirements. Tick-infested cattle, however, or cattle from a tick-infested section, are not eligible for entry.

It would therefore seem impracticable to make any satisfactory arrangements for the importation of cattle from Mexico or any other tick-infested country through the port of New Orleans, as the finding of ticks upon inspection at that port would prevent their entrance under the law, even for slaughter, while the inspection can be made at points along the international boundary line, and if the animals are found to be infested with ticks they can be turned back.

There are no quarantine stations for the reception of live stock in the South Atlantic or Gulf ports, as these ports border on tick-infested States. Cattle could therefore not be brought into them, except for immediate slaughter, as they would become infected with southern cattle fever, unless they were brought from a tick-infested country, and the importation of cattle from such country is prohibited by law.

Very respectfully,

JAMES M. WILSON, *Secretary.*

Here is report made by an American named G. L. Andrews, whom I know very well. He owns a large ranch in Sonora, Mexico. He shows that their efforts in that section have not resulted in any possibility of their taking cattle across the line, even though the international line is only marked by a marble shaft every league, every 3 miles; that cattle from a ranch in Mexico would go at will into Arizona or New Mexico, and that cattle from New Mexico and Arizona go at will and mix with the herds in Mexico. He shows that the brand was sufficient to prevent a steer, even though it was found within American territory, from going to El Paso or going to any American market, because it bore a Mexican brand. The fact that an animal was branded with a Mexican brand kept it away from the territory even where found, and it had to be driven back across the line. Of course, I am not criticizing the Department of Agriculture. They must have some method by which they are to determine what cattle may go to market and what cattle may not, but it does seem awfully silly that because there are two steers found, say, in the neighborhood of Douglas, one with an American brand and the other with Mr. Andrews's brand upon it—the two ranches bordering one another, with no fence in between—that one can go to the slaughterhouse and help supply the meat demand, or go to the feeders in the West and help supply them with material with which to work, while the other is excluded entirely from coming in, although grazing side by side with the other.

This report was made in 1910, during the Madero revolution, and at that time there were thousands of cattle there. I was buying meat at our camp in Sonora from Andrews; I was buying half a steer twice a week before this last revolution drove my people out of the work that we were doing there, paying 4 and 4½ cents a pound, 25 cents Mexican per kilo, and the other half of that steer was taken across the line into Douglas and sold for 12 and 13 or more cents a pound. They could not take the steer across; they killed it on the Mexican side, and they could bring the hide across with the ticks on it, and could bring the meat across, but could not drive the steer across. You will find in this report that Mr. Andrews finally came here, went to the department, and secured permission from the Secretary of the Treasury—and this is not said in criticism, but I want to call attention to the folly of exercising quarantine regulations so as to bar American citizens from getting meat in this country—to build his slaughterhouse on the Mexican side of the international line, his pen on the Mexican line, he could kill his steers on the Mexican side and upon paying the duty pass the meat through a door to the American side. He could pass the hides, hoofs, hair, and everything right across, paying the requisite duty at that time upon the meat—now it is free—and then dispose of it on the American side; yet he could not drive that steer across; if he found it on the American side he had to drive it back to the Mexican side in order to be able to dispose of it, as he describes. We have been exercising this method of quarantine in that way, despite the diminishing supply of meat in this country. There are not so many cattle in Sonora, Chihuahua, or the northern States, as there were at that time, because they have been in a state of revolution there all the time since,

and they have not respected the ownership of cattle any more than they have respected the ownership of horses or other property.

(Mr. Andrews's letter follows:)

WASHINGTON, D. C., February 21, 1910.

HON. R. F. BROUSSARD,

*House of Representatives, Washington, D. C.*

DEAR SIR: In accordance with our conversation at Douglas, Ariz., last December, while you were there on business connected with your operations on one of my ranches in Sonora, Mexico, and your request for me to investigate matters pertaining to the importation of neat cattle into the United States from Sonora, I beg now to make a brief report of matters that have come to my attention since that time, in order that you may be fully aware of the situation relative to this subject.

You asked me how it was that I could afford to sell to your company, operating on its mining concessions on one of my ranches, first-class beef meat for 25 cents Mexican per kilo, or 4½ cents per pound gold, and deliver the meat at your St. Mary Springs camp, a distance of about 9 miles from my headquarters on the same ranch. I then told you that the reason that I could do that was because I had it to do. I had no other market sufficient to take all of the cattle that I had; that I had steers on my ranches that were about to die of old age, and that if I did not find a market soon for them they would die of old age.

By limited market I mean it is that limited to the demand for beef in the local market of Douglas, Ariz. By special permit of the Department of Agriculture I can deliver a certain number of my cattle, after paying duty, across the international line under the following circumstances:

I am permitted to bring cattle from my ranches, which are in a quarantine territory, and deliver on the American side of the international line by special permit of the department at Washington, a limited number of cattle, which I am able to dispose of in the local market at about 3 cents per pound on the hoof. This outlet would be satisfactory were it not for the limited number which it takes to supply the local demand. The cattle that I have annually exceeds the number required for the local market; hence I have no outlet except at your camp, where I am enabled to sell you beef at this price for the reason that hides are worth 21 cents per pound in the American market; and I am permitted to introduce those hides without question in any condition in the American market.

The above referred to exit is known as the quarantine pens which abuts the international line, corrals being located on the Mexican side communicating with the pens on the American side of the line through a chute. The only outlet for the American corral is for beef quartered for the market or for the refrigerator, so that when I drive my steers through the chute from the Mexican to the American corrals they are immediately slaughtered—the only outlet for the American corrals being a small door in the slaughterhouse which permits the passage of one-fourth of a beef at the time, making it physically impossible for a steer, after once entering those corrals, to leave except through a slaughterhouse door, or back through Mexico, the same way which they entered. The keys to those pens are in the possession of the American custom-house authorities.

As to the importation of neat cattle from Sonora into the United States, about which you asked me, I can report only partially, probably; and I give you below the information that I have been able to ascertain on that subject.

W. C. Greene, of the Cananea Cattle Co., exports annually, probably 20,000 head; perhaps 75 per cent of the number are cattle purchased from other ranches, including myself in times past, while the balance are of his own raising.

B. A. Packard exports in the neighborhood of 10,000 annually through the port of Herford. Various ranches to the south of Douglas, in the mountain district, export some 12,000 or 15,000 during the year. Other ports of entry, within the State of Sonora, are Nogales and Sasabe, from which ports some 20,000 or 30,000 are exported annually. The above, to the best of my knowledge, are the only ports from which cattle at the present time are being entered from Sonora into the United States.

Heretofore it has been the custom, and even at the present time, for the above-mentioned ranches, particularly the Cananea Cattle Co., to purchase all cattle offered from any point in Sonora adjacent to their properties at prices which vary from year to year, according to the supply and demand, but which

at the present time are as follows: \$7, yearlings; \$9, 2-year olds; \$12, 3-year olds; and \$14 for 4-year olds and up. Mr. Greene takes those cattle to his property, which is adjacent to my own and other ranches, which by the department are considered in quarantine territory; where, after some 60 or 90 days, they are offered for import into the United States and shipped as feeders to all parts of the country, whether the territory to which they are shipped be quarantine or otherwise; but these cattle go principally to California, the Dakotas, and to the Northwest.

This being a large occurrence typifies other occurrences of a similar character, so I need give you only the details of this other one: On the 14th of the present month some 7,000 head of cattle were crossed at the port of Columbus, which is the first port of entry east of Douglas, Ariz., and the only one between there and El Paso, Tex. Those cattle were crossed on the hoof and loaded in El Paso & Southwestern cars for shipment to California. They came from the State of Chihuahua, which adjoins Sonora, a territory which the department considers exempted from ticks. The territory on the American side of the line in Arizona and in New Mexico is considered by the department as clean territory, notwithstanding the fact that during the various seasons of the year cattle pass freely from one side to the other of the international line and intermix. During the spring round-ups those cattle are gathered and taken to their respective ranches without question. Sonora cattle are supposed to be contaminated; Arizona cattle are free to be loaded and taken to any port whatsoever in the United States. I fail to understand why an imaginary line should be respected by a tick, or how the tick can select the Mexican steer from among the American steers to attach himself.

This is a condition which we find; the justice of it is not for us to decide.

This year I have been offered and declined for my cattle the prices which I have herein quoted by agents of the Cananea Cattle Co., because of the fact of the high prices of cattle prevailing in the United States, having foreknowledge of the fact that the Cananea Cattle Co. intended to ship these cattle into the United States after purchasing from me, and thereby secure the high American market in the final disposition of them. A steer, which on my ranch would weigh 1,000 to 1,100 pounds, would bring me when sold to the Cananea Cattle Co. \$14, while the same steer costs in duty 27½ per cent, or \$3.85, plus transportation to market in the United States—say, \$4, making the steer, when delivered at the market, \$21.85. The price of steers in Chicago is 9 and a fraction cents per pound, making this steer, if he weighed 1,000 pounds, sell for more than \$90. This, in my judgment, has something to do toward the high price of meat in the United States, and which has brought about the present universal agitation throughout that country.

I have to-day had a long conference with Drs. Melvin and Hickman, of the Bureau of Animal Industry, with regard to having some of my cattle inspected for shipment to Los Angeles for immediate slaughter, which privilege had previously been denied me at El Paso. These gentlemen have promised me an inspection, and I am in hopes that conditions will soon improve, the result of which will be of benefit to the American consumer as well as to the ranchers in Sonora, whose cattle are not permitted to be imported into the United States.

I would say, in passing, that I am offered better prices for my cattle this year than ever before; in fact, the prices herein quoted are better than they were last year and previous thereto. At that time there was no outlet for these cattle.

Mr. Pesquera, son of former Gov. Pesquera, of Sonora, a neighbor of mine and owner of some 15,000 or 20,000 head of cattle, was reduced to the extremity of killing his cattle for their hides and a certain amount of jerkey which was secured from each kill—the hides bringing 21 cents per pound in the American market, allowing him \$6 which a steer would produce in this way.

I have given you a report such as I have been able to gather while attending to my business, and I trust that it may be of service to you. I am of the opinion that if the matter were specially investigated by some one with the time and opportunity to travel through that section of the country much more information could be ascertained than I have been able to furnish. If there is any further information that I can give you I will gladly do so, if it be within my power.

Yours, respectfully,

G. L. ANDREWS.

In 1911 the agricultural appropriation bill, if you remember, became a law on the very day Congress adjourned, and our good friend,

Mr. Burleson, Postmaster General—he was then a member of this committee, I think—

The CHAIRMAN (interposing). Not at that time.

Mr. BROUSSARD. I do not know whether he was or not, but at any rate he had this proposition put in the agricultural bill of that year. Some time ago I called the chairman's attention to it:

The act of August 30, 1890, is hereby amended so as to authorize the Secretary of Agriculture, within his discretion, and under such joint regulations as may be prescribed by the Secretary of Agriculture and the Secretary of the Treasury, to permit the admission of tick-infested cattle from Mexico into that part of Texas below the southern cattle quarantine line.

I did not know it was in that bill until I saw it subsequently, possibly because it was put in there during the last day of the session. However, that opened all of the ports along the border between Mexico and the United States. It opened the port of Galveston, and cattle from Progreso, say, could be carried by water to Galveston.

I wrote to Dr. Melvin and asked him how many cattle were imported into Texas under this provision of the act of 1911. Presumably he did not have the data, or all of it, available, but he made this report to me:

UNITED STATES DEPARTMENT OF AGRICULTURE,  
BUREAU OF ANIMAL INDUSTRY,  
Washington, D. C., January 22, 1914.

HON. R. F. BROUSSARD,  
House of Representatives.

DEAR SIR: I beg to acknowledge the receipt of your letter of January 19, requesting information concerning the ports which are now open for the importation of Mexican or South or Central American cattle and the restrictions placed upon their importation. Please find herewith inclosed, in accordance with your request, copy of B. A. I. Order 180, in which you will find printed at page 24 the laws under which these regulations are made, and note that section 6 of the act of Congress approved August 30, 1890, prohibits the importation of cattle which are infected or which have been exposed to the infection of disease within 60 days next before their exportation. This includes cattle carrying southern cattle-fever infection. At the bottom of page 26 please note extract from the act approved March 4, 1911, which provides for the admission of tick-infested cattle from Mexico into that part of Texas below the southern cattle quarantine line. This constitutes the only exception to the prohibition as contained in the aforementioned act.

Since the tariff act of October 3 placing cattle on the free list went into effect, 145,397 cattle have been imported from Mexico into Texas, as follows:

El Paso .....	69,782
Eagle Pass .....	9,045
Laredo .....	16,875
Brownsville .....	18,031
Galveston .....	234
Del Rio .....	1,422
San Ignacio .....	10,042
Palafax .....	2,191
Minera .....	333
Edinburg .....	7,269
Rio Grande City .....	2,093
Roma .....	4,081
Pumpville .....	1,536
Alamit Crossing .....	575
Lantry .....	1,016
Santa Maria .....	26
Comstock .....	696
Total .....	145,397

During the same period in 1912 60,008 cattle were imported.

Cattle in any case would not be permitted from the South American Republics on account of the existence of foot-and-mouth disease in such countries. It has been the policy of the department ever since the establishment of the Bureau of Animal Industry not to permit the importation of cattle, sheep, and swine from countries in which foot-and-mouth disease exists.

Telegrams forwarded with your letter are herewith returned.

Very truly, yours,

A. D. MELVIN, *Chief of Bureau.*

I have information from a friend of mine in St. Louis that a couple of gentlemen went out recently to buy cattle upon a profit of \$2 a head; that they had contracted for 16,000 head of cattle since this letter was written, and when they undertook to take them across they found that the constitutionalists had put a tax of \$20 a head upon cattle for export, consequently no money was to be made, and importations have stopped, to a certain extent, if not altogether.

Now, here is a copy of a letter which was sent to me by the Live Stock Exchange in New Orleans, addressed to the Department of Agriculture by the Galveston Commercial Association. This was on December 17, 1913—I thought it was 1914, but it was last December, and that was while these importations were going on:

GALVESTON, TEX., *December 17, 1913.*

DEPARTMENT OF AGRICULTURE, *Washington, D. C.*

DEAR SIR: Referring to letter from your Acting Secretary dated November 20, we are fully aware that the present regulations prohibit the importation of tick-infested cattle from all countries except Mexico.

Of course, they claimed exemption under that provision of the appropriation bill of 1911.

But what we want to bring about now is legislation by Congress that will permit of the importation of such cattle through the port of Galveston from Honduras and Venezuela.

We are asking for these two countries only because we understand that the department will have to make some investigations before Congress will pass this legislation, and we do not desire that the time of the department shall be taken up in investigating conditions in countries from which there is no prospect of our importing cattle.

These two countries are the only two from which cattle are liable to be imported into the United States.

We have to-day addressed Hon. A. W. Gregg, Representative from this district, and Hon. Morris Sheppard, Senator from Texas, on this subject, and trust you will find it convenient to give this matter your prompt consideration.

Yours, truly,

GALVESTON COMMERCIAL ASSOCIATION.

Then here is a letter written to me by the Live Stock Exchange in New Orleans, along the same lines, inclosing copies of letters addressed by the Galveston Commercial Association to Mr. Gregg and Senator Sheppard.

(Said letters follow:)

NEW ORLEANS LIVE STOCK EXCHANGE (LTD.),  
CRESCENT CITY STOCK YARDS,  
*New Orleans, La., December 29, 1913.*

HON. ROBERT A. BROUSSARD,  
*Washington, D. C.*

DEAR SIR: Since writing you under date of December 11, relative to Congress ordering New Orleans to be opened as a port of entry to Mexican cattle, I have found out that the Texas people are making an effort to have Honduras and Venezuela cattle brought into Texas under the same regulations as are Mexican cattle.

I am inclosing copies of letters that have been forwarded to Messrs. Gregg and Sheppard on this subject by the Galveston Association of Commerce, and from what I can gather I think the movement will meet with success.

There is no reason why these cattle could not be brought into New Orleans under the same conditions; we are below the southern cattle quarantine line, the same as the ports in Texas that are open, and the benefits to the local industry and the general public would be wonderful if cattle from these countries could be brought in here.

I am constantly receiving inquiries regarding the possibility of opening this port, and I trust that something may be done along this line. I am under the impression that the Department of Agriculture has already investigated the cattle situation in Honduras and Venezuela, and I think the agent who was sent to look into the situation made a favorable report. They have a good class of cattle there, and they could be brought into this country at a minimum expense.

With best wishes for the New Year, I am,  
Very sincerely,

T. J. PERRIN, *Secretary.*

GALVESTON, TEX., December 17, 1913.

HON. A. W. GREGG,  
*Washington, D. C.*

DEAR SIR: We wired you last night suggesting that arrangements should be made to at once eliminate the restrictions which now apply on the movements of tick-infested cattle from Honduras and Venezuela to Galveston.

There is a prospect of movement of cattle from these countries to Galveston, and by limiting our efforts to these countries at the present time positive action can undoubtedly be taken by Congress at this session to pass the necessary legislation.

It will probably be necessary for the Department of Agriculture to investigate the conditions in these two countries before the legislation can be had, and by limiting our efforts to two countries we prevent the consumption of a great deal of time by the department in investigating the situation in a number of countries from which no cattle movement will perhaps be made.

I wish you would give this matter your immediate attention and urge all possible action that will bring about permission to import tick-infested cattle from Honduras and Venezuela.

Yours, truly,

GALVESTON COMMERCIAL ASSOCIATION.

GALVESTON, TEX.

HON. MORRIS SHEPPARD,  
*Washington, D. C.*

DEAR SIR: Referring to your letter of December 1, inclosing one from the Chief of the Bureau of Animal Industry, Department of Agriculture (his file U-9.527.1), we are fully aware of the conditions which the chief of the bureau recites.

However, Galveston people are now engaged in the handling of cattle from Honduras and Venezuela, and we know that outside of ticks there is no objectionable feature to be found attached to them.

I understand that it may be necessary for the Department of Agriculture, through the Bureau of Animal Industry, to investigate the conditions in Honduras and Venezuela with respect to the importing of cattle before Congress passes the necessary legislation, or at least before the cattle can be imported into the United States, and I would thank you to present this matter to the department at your very earliest convenience, with the suggestion that the matter should be given earnest and immediate attention; and I hope you will confer with Representative Gregg and arrange that the necessary legislation be introduced into Congress and acted upon at the earliest possible moment.

Yours, truly,

GALVESTON COMMERCIAL ASSOCIATION.

MR. SLOAN. To what extent are the people of Louisiana interesting themselves in clearing the cattle tick from the limits of that State?

MR. BROUSSARD. There has not been very much work done so far, but I understand the department has taken up the matter with the



governor. The legislature has just met, and I understand there is going to be cooperation in every way for the removal of the ticks. You see, we have not yet gotten into the cattle business down there, and in the sugar country we must clean up those places if we are going to raise cattle.

Mr. HAUGEN. Now, the \$50,000 that was referred to was appropriated for the purpose of encouraging cattle raising in the South?

Mr. BROUSSARD. I imagine that is what the department is going to do. As you know, the purpose—it was not very definite in the appropriation as it finally passed the House, and I do not know how it reads now that the Senate has recast the wording of the appropriation.

Mr. HAUGEN. I think it has been included in the bill by the Senate and increased, and that the language included in the bill is now much broader. But my understanding was that it was to help the farmers to grow cattle, and that this proposition now is to let in the cattle infected with these cattle ticks.

Mr. BROUSSARD. No; that is not the proposition.

Mr. HAUGEN. All that is required here is the affidavit of the owner and the shipper that the cattle are not infected with certain diseases.

Mr. BROUSSARD. I think if you will read my bill you will find that it contains every safeguard that is now being used to prevent the importation of tick-infected cattle from Mexico into Texas.

Mr. HAUGEN. Well, the only safeguard is the affidavit from the owner and shipper.

Mr. BROUSSARD. No, sir; quarantine is provided for.

Mr. HAUGEN. As to quarantine, that may be true, but no certificate is required from some official over on the other side certifying that the cattle are so-and-so.

Mr. BROUSSARD. No; but there is more than that. That is not the method pursued in Texas at all, and they have cattle coming from Mexico into Texas all the time. Those cattle are inspected, and if found to have one tick on them they are dipped right away and kept in quarantine until they are declared to be perfectly safe to bring in among the other cattle; at least, that is my information. Of course, I do not want any cattle brought here that have ticks, and I have attempted to provide the same safeguards now applied to Mexican cattle entering Texas.

Mr. HAUGEN. It seems rather inconsistent to appropriate \$100,000 to eradicate the tick and then to encourage the importation of cattle with the tick.

Mr. BROUSSARD. There is no intention to encourage the importation of cattle with ticks; I do not want that.

Mr. HAUGEN. But under the present law it is left in the discretion of the Secretary.

Mr. BROUSSARD. Yes, sir.

Mr. HAUGEN. And if we report your bill and it becomes a law, it is left to everybody, is it not? Is it not safe to leave it to the discretion of the Secretary?

Mr. BROUSSARD. With this restriction; yes——

Mr. HAUGEN (interposing). And if he has not the funds, then have Congress appropriate the funds to make it possible for him to ascertain the facts.

Mr. BROUSSARD. Let me read this provision from the bill:

*Provided, That all tick-infested cattle offered for importation from the countries and the islands recited herein into those ports of the United States below the southern cattle quarantine line shall be imported through ports existing or located in that territory and be accompanied by an affidavit of the owner, stating that such cattle have been in the country or district from which shipped for six months next preceding the date of the importation; that no contagious, infectious, or communicable disease has existed among them or among any animals with which they have come in contact for six months last passed, except the so-called Texas or splenic fever; also, by affidavit of the importer or his agent supervising the shipment, stating that the cattle have not passed through any district infected with contagious disease affecting animals of their kind, except the so-called Texas or splenic fever; that they have not been exposed in any possible manner to the contagion of any contagious disease except the so-called Texas or splenic fever; and that the animals, when not driven, had been shipped in cars and vessels which have been cleaned and disinfected except as to ticks.*

Mr. HAUGEN. It is exactly as I stated; it simply requires the affidavit of the owner and shipper and no certificate by any Government official. If you ship horses from Iowa into Dakota you have got to have them inspected by the veterinarian, and if we take that precaution here why should we not take the same precaution against foreign animals?

Mr. BROUSSARD. I am not arguing against precaution; on the contrary, I am arguing for every possible precaution. I only put that in the bill for the reason that the department, through its constituted authorities, who have special knowledge of this matter, thought that was all that was necessary, and that is all they are doing now, and if they can do it in Texas that way why not in Louisiana?

Mr. HAUGEN. They could not have done it in Texas.

Mr. BROUSSARD. Perhaps they could not, but the fact remains that the law now discriminates in favor of one section of our country and against all other sections.

Mr. TAYLOR. What you really want is that wholesome cattle shall come in?

Mr. BROUSSARD. Yes, sir.

Mr. TAYLOR. You want them to breed and have wholesome cattle?

Mr. BROUSSARD. I want to have good stock, and I really think this would bring it about.

Mr. TAYLOR. But now the qualifications are so general that no cattle can come in.

Mr. BROUSSARD. They will not let them come in at all.

The CHAIRMAN. Let me ask you what the procedure is when cattle come into Texas from Mexico in reference to dipping?

Mr. BROUSSARD. They dip them. If they find any necessity for it, upon inspection of the herd, they dip them. If they find any trace of ticks or have any doubt as to the accuracy of the statement they hold them in quarantine, dip them, and redip them before they permit them to go out of quarantine, all at the expense of the man who owns them.

The CHAIRMAN. The safeguard in your bill, as I read it, is contained in section 3?

Mr. BROUSSARD. Yes, sir.

The CHAIRMAN. "That all such cattle, when entered, shall be subject to the regulations governing the handling and transportation of

cattle from the districts infected with southern, Texas, or splenic fever." That seems to be the real safeguard.

Mr. BROUSSARD. Yes, sir. I put the regulation just as I found it in the regulations of the department governing those that are already coming into this country from tick-infested countries, but if that is not sufficient I want that safeguard enlarged and made more restrictive as to the bringing in of any disease, not merely tick disease, but any disease.

The CHAIRMAN. Would you have any objection to a bill that would authorize the Secretary of Agriculture to determine the ports at which these animals should be permitted to enter and which would provide that he would have authority to require all animals to be quarantined at these ports of entry for a sufficient length of time to remove all ticks and determine whether or not they were infected with disease?

Mr. BROUSSARD. Certainly. Of course, if the cattle were brought there in condition to be slaughtered at the port of entry, then the restriction ought not to be laid, because they are not passing over from there to any portion of the country where they might spread fever. But, on the other hand, if they are going from the port of entry or river or harbor, where they enter the United States, these cattle should be put in quarantine unquestionably, and every method should be used to prevent the spread of disease.

Mr. TAYLOR. Would it not be practicable to have them treated in Honduras, for instance, before they are shipped?

Mr. BROUSSARD. Yes, sir.

Mr. TAYLOR. That would necessitate a Government agent?

Mr. BROUSSARD. Yes, sir.

Mr. HAUGEN. Then why should you not leave it in the discretion of the Secretary?

Mr. TAYLOR. We do.

Mr. BROUSSARD. Does not section 3 mean the safeguarding of any and every animal?

Mr. HAUGEN. That is after the cattle land?

Mr. BROUSSARD. I say, if you do not think the language is broad enough I want you to broaden it. I adopted it because the department has been permitting the importation of these cattle in Texas since 1911 under these rules, and they are now importing cattle into the United States from tick-infested countries without changing their rules. I felt the department was not friendly to this proposition at that time, and I did not want them to say that I undertook to regulate their methods of handling such matters and say, "We are spending money to eradicate ticks and yet you want to bring them into the the country." If that which I suggest does not constitute a sufficient safeguard, I am willing that the committee should provide for dipping, and even provide for the method of dipping, etc. Mr. Bisbee, the vice president of the East St. Louis yards, was here the other day and was talking with me about this matter. He informed me that the Mobile & Ohio Railroad has recently acquired the plant at Chalmette, La., the place where the horses and mules were shipped from to Africa during the Boer War, right next to the slaughterhouse at New Orleans. They are prepared to arrange in any way the department may direct them, at their own expense, to

furnish quarantine yards, dipping vats, and anything that the department may prescribe, if they will be allowed to open that port and bring their cattle to East St. Louis and other packing centers in this country.

The CHAIRMAN. Suppose you suspend for a moment and let me read into the record a letter I received from the Department of Agriculture this morning on the subject. The committee suggested that I send the bill to the department for a report. I think that will clarify the situation somewhat and probably bring your mind and the department's together and expedite the consideration of this proposition. The letter reads as follows:

DEPARTMENT OF AGRICULTURE,  
Washington, May 15, 1914.

HON. A. F. LEVER,

*Chairman Committee on Agriculture, House of Representatives.*

DEAR MR. LEVER: Referring to the letter from your committee of the 11th instant, transmitting at the request of Mr. Broussard a copy of H. R. 13039, a bill to amend the act of August 30, 1890, I would say that the issues involved in this bill, namely, the admission of tick-infested cattle from Mexico, South and Central American and other southern countries, have been receiving the attention of this department for some time.

Under conditions at present existing tick-infested cattle may come into Texas below the quarantine line. If tick-infested cattle are permitted to come into Texas below the quarantine line, there would seem to be no good reason why they should not be admitted to other southern ports, provided proper precautions are taken in the premises. Without attempting to comment specifically upon H. R. 13039 we may offer certain suggestions as to legislation along the lines it is desired to cover by this measure.

There would appear to be no valid objections to any action by the Congress giving authority for the admission of cattle from Mexico and other Central and South American countries, provided the Secretary of Agriculture is given power to definitely determine the ports at which such animals shall be permitted to enter; and provided further, that he shall have authority to require all animals to be quarantined at the ports of entry for a sufficient length of time to insure the removal of all ticks and to determine whether or not such animals are affected with any disease that may be detrimental to the country at large. It is the opinion of our experts that any provision which would have for its object the acceptance of affidavits in these countries, setting forth that the animals have or have not been subject to disease, have or have not been in contact with diseased animals, etc., would be of little value, and should be omitted from any measure that might be adopted. If the Secretary of Agriculture were given authority to fix the ports and to determine the quarantine measures at such ports, then, with the existing authority to investigate foreign countries in so far as such investigation has to do with animal diseases, the best safeguards would be secured.

Very truly, yours,

D. F. HOUSTON, *Secretary.*

Mr. HAUGEN. That is what I have contended.

Mr. BROUSSARD. I am glad to see that the department has somewhat modified its position, because on the 6th of February, this year, it wrote a letter to Senator Ransdell protesting against this bill. That brings us back where we started. The act of 1909 does give the Secretary of Agriculture the right to do the very thing he describes in this letter. Now, if we are going to say we will again tell him to do it, will he do it?

Mr. DOOLITTLE. About naming the ports?

Mr. BROUSSARD. I am perfectly willing for him to name the ports, but he has not named any. I have had a number of conversations with Dr. Galloway. He said that he was sure the department had ample discretion already, and that the department had the right to

put their safeguard around the quarantine territory. I made it plain that I was fighting for the safeguarding of the herds with the strictest rules applicable to the situation as it may be found to exist in foreign as well as in this country.

Mr. TAYLOR. All you need to do is to say, "You shall do it."

Mr. BROUSSARD. Well, he wants to pick the ports.

Mr. TAYLOR. Then you can say he "shall" pick the ports.

Mr. BROUSSARD. There are only about three or four ports to which this bill would be applicable, if you except the ports along the United States and Mexico, which are already open. There are about 26 or 27 ports of entry in Texas now where these cattle come across the line. So those ports are already fixed, and most of them are fixed by virtue of the discretion vested by the act of 1909 in the Secretary of Agriculture. I say this because originally, when the Burleson amendment went through, there were only four ports open, as I recall it. The number has been enlarged since 1911 to 26 or 27. Every once in a while if anyone wanted to bring in cattle by way, say, of Eagle Pass they would open Eagle Pass; if anyone wanted to bring in cattle by way of Brownsville they would open Brownsville; then if they wanted to bring in cattle by way of Puerto Porfirio Diaz they would open that port. That is the discretion which I contend the department has and which it can use to open up ports like Galveston to cattle from Honduras and Venezuela and Colombia, or New Orleans or Mobile or Gulfport or Florida ports. Whenever these countries having cattle ready for export see anything regarding this bill they write to me and give me information concerning the matter. My information from Colombia comes largely from the consul down there. He is reported to me to have said that in his neighborhood there were 10,000 head of steers ready to come into the market when these ports are opened. When Thompson was in Honduras he said that they had 30,000 head of steers, and I was informed by many ranchers that they could ship 200,000 head of cattle every year. He said these would be fat and ready to be slaughtered when they got here. One hundred and forty-five thousand came across the Texas line in two and a half months in spite of the war in that territory, where property rights have not been very highly respected for several years. At Progreso, down in the southern part of Mexico, there are 25,000 now, so I am informed. I am informed that these two gentlemen who went down there and gathered together in a month 16,000 head and were about to take them across when this export tax of \$20 was put on them, and they could better leave them there than take them across under the circumstances. Now, I have a letter from the President of Venezuela, but I do not want to put all that in the record. He said they have a lot of cattle ready for shipment to this country.

Mr. HAUGEN. Now, let us get this straight. Your understanding is that the Secretary now has authority to open these ports?

Mr. BROUSSARD. Yes, sir.

Mr. HAUGEN. The ports have not been opened?

Mr. BROUSSARD. No, sir.

Mr. HAUGEN. The only reason which can be given for that is that the Secretary does not deem it advisable or safe to open them?

Mr. BROUSSARD. I can not say what the Secretary thinks about it, but I know that Dr. Galloway says that he thinks the Secretary has

the authority and that the ports ought to be open under proper safeguards.

Mr. HAUGEN. Is it not safe to leave it to the discretion of the Secretary as to the number of ports that shall be open?

Mr. BROUSSARD. Yes, sir; I think it is safe.

Mr. HAUGEN. But you say they will not be opened?

Mr. BROUSSARD. Well, he has not done it, though it has been repeatedly urged.

Mr. HAUGEN. My understanding is that he would not do it.

Mr. BROUSSARD. No; I said he has not done it.

Mr. HAUGEN. Then the only reason that could be given would be that it is not safe to do it. As I understand this proposition it is to reduce the cost of living, and the Secretary is doing as much as can be expected of him.

Mr. TAYLOR. I feel somewhat as Mr. Broussard does—that the department has laid down a general rule of quarantine and certain regulations. Now, they have been adhering to them for a long time, and conditions have changed and they have not changed their regulations. That question was discussed in reference to the potato quarantine. It was absurd, in my estimation, to keep out those potatoes from my district when people were paying \$4 a barrel for them. They would not have been used for seed. You could have allowed those potatoes to come into my district and nobody would have used them for seed; we wanted them for food, but they did not come in there. It did not matter to us whether they were powder skins or not; all we wanted was a supply of potatoes to eat. We paid \$4 a barrel for them, and they kept the potatoes out of the port of New York that we would have liked to have had.

Mr. HAUGEN. I am somewhat familiar with the regulations of the department, and I know this, that if you undertake to ship cattle from one district to another district you might pile up enough affidavits of owners and shippers to fill this room.

Mr. TAYLOR. You are right on that.

Mr. McLAUGHLIN. How does the finished Honduras steer, ready for killing, compare with the Texas steer or Hereford?

Mr. BROUSSARD. Well, the report of Mr. Thompson shows that the steers that his party examined would average 800 pounds. That is a pretty good steer.

Mr. HAUGEN. How old would a steer like that be?

Mr. BROUSSARD. I do not know. The average was 800 pounds.

Mr. HAUGEN. How do they compare with the Argentine and South American cattle?

Mr. BROUSSARD. I do not know; I am not familiar with the South American cattle.

Mr. HAUGEN. They are about the same cattle.

Mr. BROUSSARD. No; they are stockily built. They live in a mountainous country and they are shorter than the old Texas steer. He was a long, lanky fellow; this one is built with short limbs, large bones, and on the whole, a broad, stocky animal.

Mr. HAUGEN. In point of quality, what are they?

Mr. BROUSSARD. They belong to the same stock as the original Texas cattle, but the environments and surroundings under which they have been bred and reared were different from the plains of

Texas, and in the course of 300 or 400 years they have developed into quite a different animal.

Mr. HAUGEN. How do they compare with the Tennessee and other cattle?

Mr. BROUSSARD. They are good, heavy, chunky cattle. I have photographs of steers—the steers that are used on wagons and carts, because in Honduras they do not use horses—that will weigh from 1,100 to 1,200 pounds, but that is the exception; generally speaking, however, they are big cattle.

Mr. HAUGEN. And the South American cattle are superior to ours in quality?

Mr. BROUSSARD. I did not say they are.

Mr. HAUGEN. Well, as evidence of that I have a letter from a commission merchant in Chicago who states that the first shipment brought in averaged up in quality and compared with our \$8.40 cattle. I sold some cattle three days after that that had been fed from October up to the 23d of April on corn, and they brought \$7.40. You will see that the cattle they take from their pastures and ship in here are superior to our corn-fed cattle.

Mr. BROUSSARD. From my observation of the cattle in Sonora and same grade in Honduras, both mountain country, I can say this: The steer that is raised in Honduras—and this is true of the steer that is raised elsewhere in Central America—never suffers for water; he may suffer a little from too much rain, but he can always get away from the range and not suffer a great deal. The cattle in Sonora are perhaps a little better in grade, because the white-face steer has been brought across the line—the white-face Hereford. I have seen at Greene's ranch at Cananea during a drought as many as 40 cattle dead around a water hole that had gone dry. Some survived. I have seen them all piled close together. I have seen them hook one another at Naco, where the railroad cistern was dripping down, trying to get water during the drought. I have seen them stand on the track fighting for water right in front of the locomotive and kill one another. The cattle that have suffered, even when fattened on corn, do not make as good meat as grass-fed cattle that have never suffered. There is not a night in the Cordilleras when you do not need an overcoat. The cattle graze at night and they sleep well. They have an abundant supply of water. It is the richest, most fertile, and prettiest section of mountainous country for cattle in the world. Cattle naturally grow up to the best advantage, and the meat is very good, barring the fact that they have not got a meat cleaver or saw in the capital of the cattle country, with a population of some 40,000 people. At Tegucigalpa there is not a cleaver nor meat saw to be found in the public market, I am reliably informed. Of course, when they put the meat on the block and chop the bone off it does not make meat of a nice appearance. I used to see the meat brought past my hotel every morning on the way to the cuartel. It would be brought in wheelbarrows, cut up with all sorts of axes, shattering every bone in the meat. It presented a most unappetizing appearance, and I did not feel very much like eating it in the hotel.

Then, again, they do not permit the killing of calves—well, perhaps I am not exactly correct in saying they do not permit the kill-

ing of calves, but they have a head tax on the killing. They have no land tax, but they have internal-revenue taxes on the killing of animals. Now, it costs \$2 to kill a steer, but it also costs \$2 to kill a calf, and the fellow that is going to kill anything is going to kill a steer, because he has got the \$2 to pay whichever one he kills, and he would rather kill the larger animal. You go to Puerto Cortez, on the coast, where you find the butchers killing cattle and dressing the meat as in this country, and you will find there as good grass-fed cattle as anywhere in this country. But they have not had any improved stock among these animals for the past centuries since Alvarado went down from Mexico into Central America.

Now, I want to say this: I think the committee can meet the position which the Secretary of Agriculture has taken. I want it distinctly understood that I have no issue with anyone with regard to the proper safeguarding of animals that we are to bring into this country.

Mr. RUBEY. Section 2 of this bill provides:

That when such cattle are not accompanied by the affidavits hereinbefore described, they shall be detained in quarantine at the port of entry, etc.

Now, that means, if it means anything, that if they are accompanied by these affidavits they are not compelled to go through this quarantine. You say you are perfectly willing to have them go through quarantine. Why is section 2 put in this bill?

Mr. BROUSSARD. Well, now, I will tell you exactly why section 2 was put in this bill. The first part, up to the word "provided," on the second page, is a repetition of what is known as the "Burleson amendment" to the appropriation bill of 1911, practically word for word. If you will examine my other bills, introduced in 1910 and 1911, you will not find that language in there, because at that time I was so afraid to permit these cattle to get across the country that I only wanted to get the ports open for immediate slaughter; but as I found these other cattle coming in under regulations which are described word for word in this bill, I have taken the regulations with regard to the importation of cattle from Mexico into Texas word for word from the regulations of the Department of Agriculture. In other words, I have combined the law permitting them to come into Texas with the regulations under which they do come and made a bill out of those two sections, one an act of Congress and the other a regulation of the department, feeling that if the department would permit any importation south of the line they would put the same regulation as upon present importations. But I do not want to quarrel about the wording of it. I am not tied to any particular verbiage or method. I want this trade to open up. There are millions and millions of dollars of business to open up between this country and the cattle-producing countries south of us. If you will let down the bars and let them come in and then surround them with all the safeguards which the Bureau of Animal Industry and the Department of Agriculture can throw around them, you will find we contend for no more. What they want I want myself, because I have more at heart the protection of my herd than the department has.

Mr. McLAUGHLIN. You say "permission." There is permission now so far as it is vested in the Secretary of Agriculture.



Mr. BROUSSARD. I think so.

Mr. McLAUGHLIN. You want him to be "required"?

Mr. BROUSSARD. Yes, sir.

Mr. TAYLOR. That is what you want.

The CHAIRMAN. Now, Mr. Broussard, right in that connection. I have been running over hastily these various acts, and it seems to me that there can be no question that the Secretary of Agriculture has full authority now to permit these importations. For instance, take the act of 1903, which provides:

That the Secretary of Agriculture shall have authority to make such regulations and take such measures as he may deem proper to prevent the introduction or dissemination of the contagion of any contagious, infectious, or communicable disease of animals from a foreign country into the United States, etc.

Now, if he has the right to prevent, certainly he has the right to permit the entry of these animals under certain regulations.

Mr. BROUSSARD. I argued that in 1908, but I never could convince the Secretary of Agriculture then that that meant what the chairman has just said it means.

The CHAIRMAN. Here is the act of 1890, which says:

That the Secretary of Agriculture be, and is hereby, authorized, at the expense of the owner, to place and retain in quarantine all neat cattle, sheep, and other ruminants, and all swine, imported into the United States, at such ports as he may designate for such purpose and under such conditions as he may by regulation prescribe, respectively, for the several classes of animals above described.

Now, it seems to me that that is full authority for him to disinfect these animals of these diseases and then permit their entry into this country. Here is another section of the same act:

SEC. 8. That the importation of all animals described in this act into any port in the United States, except such as may be designated by the Secretary of Agriculture, with the approval of the Secretary of the Treasury, as quarantine stations is hereby prohibited.

There it gives to the Secretary the affirmative right to establish these quarantine stations.

Mr. BROUSSARD. Mr. Chairman, there is no question about that; but here is a letter, as late as February 6, 1914, from Dr. Galloway to Senator Ransdell declaring that they have no right to do it, though since that date I went over there and talked to Dr. Galloway myself, and he said: "Well, I believe you are right. We have never had our attention called to the act of 1909." He said he had always been under the impression that they were construing the act of 1890, which is superseded by the act of 1909.

The CHAIRMAN. Or by the act of 1893.

Mr. BROUSSARD. I have argued it before the Secretary of Agriculture and the Secretary of the Treasury at least several times since my efforts have been directed toward trying to open up the port of New Orleans for the importation of these cattle. It is only since the 6th of February that I wrote to Dr. Galloway to send me a copy of the regulations, which he did, and then he asked me to come over. I went over, and he said, "I think you are right; we have got that discretion." Then he asked me to have the bill sent over there if I would like to get an opinion on it.

I am perfectly willing for the committee to hear the Secretary of Agriculture, Dr. Melvin, Mr. Hayes, or Dr. Galloway, and let them say all that needs to be done in order to safeguard the native herds,

but I would like you to get New Orleans and Mobile and other southern ports opened up. They are close to this market and they ought to be open.

Mr. HOWELL. Where do these cattle now find a market?

Mr. BROUSSARD. Well, they do not find any. You may find a few men driving cattle to neighboring republics. After the Spanish-American War the sugar industry in Cuba was all destroyed in 1898. When they reestablished the sugar industry in the island of Cuba steers were needed to rehabilitate the sugar industry of the island. They drew from these countries for cattle and they cleaned up Guatemala. Honduras was less fortunately located and sent her cattle to Cuba only to a limited extent, so that her herds were scarcely touched.

Mr. HOWELL. Why did not these cattle go to Europe?

Mr. BROUSSARD. It is too far for them to go to Europe, and you can not get the men to do the work of establishing a slaughterhouse there. You have not got the kind of people that you can draw the labor from. When you get into Argentina you can do it, because you have got plenty of people there. The Germans, Italians, and English there go out and establish packing plants and freeze carcasses and ship them to Europe and to the United States. You could not do that in the other countries, because you have got to get the proper kind of labor and the security of Government to protect your investment.

Mr. HOWELL. I was anxious to know whether these cattle were quarantined against the European cattle.

Mr. BROUSSARD. No, sir.

Mr. HAUGEN. What do you do with them; let them die?

Mr. BROUSSARD. They are now driving some across the country to Guatemala, where there has been considerable need for them, because Guatemala had sold all her herds to Cuba in 1898.

Mr. HAUGEN. What are they getting for them?

Mr. BROUSSARD. They were getting \$10 gold per head. When this inspection was made one could have bought 50,000 head of cattle at \$10 gold, I am reliably informed. This report shows that they sold for \$9 to \$14 in Sonora and \$45 across the line.

Mr. HAUGEN. Is that the inspector's report?

Mr. BROUSSARD. No; I do not mean the inspector's report.

Mr. HAUGEN. Does the report give the prices for selling?

Mr. BROUSSARD. I think it does say something about the price.

Mr. HAUGEN. What is the expense of shipping into this port?

Mr. BROUSSARD. I have never made any investigation, but the men in the stockyards at New Orleans say about \$6 per head.

Mr. HAUGEN. Ten dollars, and they weigh about 800 pounds. That is about a cent and a quarter a pound?

Mr. BROUSSARD. That is about it.

Mr. DOOLITTLE. That would make it \$16 a head at New Orleans!

Mr. BROUSSARD. Yes, sir. But the prices will go up, as there will be competition if American ports are once opened.

Mr. DOOLITTLE. They would cost \$16 at 2 cents a pound laid down at New Orleans?

Mr. BROUSSARD. Yes, sir.

Mr. RUBEY. You have got a pretty good market there.

Mr. BROUSSARD. Oh, yes.

The CHAIRMAN. Does that complete your statement, Mr. Broussard?

Mr. BROUSSARD. I think so.

Mr. TAYLOR. Did you want to say something about the supply?

Mr. HAUGEN. If you can import cattle here at 2 cents a pound, how are you helping your farmers?

Mr. BROUSSARD. We are going to buy some cattle from those countries to start breeding. I can scarcely get heifers down home at all. I do not expect to get cattle for 2 cents a pound when they open up those ports. They will put an export tax on, and then a lot of people will buy them from the rancher, and the man who buys them will have to pay a tax; and then the stockyards people will get them, and they will tax the purchaser for handling, and about the time the farmer gets them finally he will not be paying anything like the little price these cattle sold for in the beginning.

Mr. HAUGEN. Then you will not reduce the cost of living.

Mr. BROUSSARD. Well, I am not so anxious to get meat at 10 cents a pound, but I would like to see it lower than it is now. I think if you can get 145,000 head of cattle into the United States in two and a half months, as recently done in Texas, you are helping to lower the cost of living.

Mr. HELGENSEN. Is not this situation a great example of the absurd method employed by Congress in recent years of making blanket legislation authorizing the various department heads and officers to use their discretion not only in carrying out what we want them to carry out but in determining whether or not they will do it at all? I think we will never have better results unless we enact more sensible legislation along that line.

Mr. McLAUGHLIN. Under the present law the Secretary of Agriculture can permit the very thing to be done that he is asked to do or that would be accomplished by this bill. But this bill would require the Secretary of Agriculture to permit these importations and to make the regulations under which the importations may be made, taking away his discretion on the point of whether or not some regulation shall be made for permitting the importation. Is that right?

Mr. BROUSSARD. The proposition is to open these ports.

Mr. McLAUGHLIN. They can be opened now, can they not?

Mr. BROUSSARD. By the Secretary of the Treasury.

Mr. McLAUGHLIN. And the Secretary of Agriculture has not seen fit to do it?

Mr. BROUSSARD. No; I say the Secretary of the Treasury must open them.

Mr. McLAUGHLIN. Now, you are going to require him to open these ports and make regulations which he did not think wise to be made and to grant permission which he has not thought wise to grant.

Mr. BROUSSARD. I do not think the Secretary of Agriculture has any authority under the law, but I contend that the authority is vested in the Secretary of the Treasury, and the Secretary of the Treasury will not exercise that authority until he is told by the Secretary of Agriculture that it is safe to do it, and the Secretary of Agriculture will not do that, because he says it is not his business but the business of the Secretary of the Treasury.

The CHAIRMAN. It seems to me that it would help matters somewhat if the Secretary of Agriculture had authority to open these ports.

Mr. BROUSSARD. I believe that and I have always believed it.

The CHAIRMAN. The other proposition is rather to amend the act of 1890, so as to authorize the Secretary of Agriculture in his discretion to do what is contemplated by this bill.

Mr. BROUSSARD. Yes. I am not asking him to be compelled to do this, but I am asking that he be authorized, because he says he has not the necessary authority. The Secretary of Agriculture having taken the position so repeatedly in all these letters and correspondence that he did not have the authority. I want to vest that authority in him by specific and mandatory legislation.

(Thereupon the committee adjourned.)

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# NATIONAL MARKETING COMMISSION

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## NATIONAL MARKETING COMMISSION.

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HOUSE OF REPRESENTATIVES,  
COMMITTEE ON AGRICULTURE,  
*Monday, September 14, 1914.*

The committee met at 10 o'clock a. m., Hon. Asbury F. Lever (chairman), presiding.

In addition to the members of the committee, the following gentlemen were present: Messrs. Dershem, of Pennsylvania; Young, of North Dakota; Murray, of Oklahoma; McDonald, of Michigan; Esch, of Wisconsin; Callaway, of Texas; Caraway, of Arkansas; Senator Fletcher; Taggart, of Kansas; Goodwin, of Arkansas; Burke, of Wisconsin; Mr. David Lubin; Hon. Carl Schurz Vrooman, Assistant Secretary of Agriculture; Dr. Clarence J. Owens, managing director, Southern Commercial Congress; H. S. Mobley, president Farmers' Union of Arkansas; George P. Hampton, representing various State granges; and Dr. A. Simon, of Washington, D. C.

Mr. GOODWIN. I have here a few modifications in the resolution, which in no way affect the principle; they merely change some of the wording.

The CHAIRMAN. I suggest that the modified resolution be made a part of the official record.

The following is the resolution referred to and as modified:

[H. J. Res. 344, Sixty-third Congress, second session.]

IN THE HOUSE OF REPRESENTATIVES.

SEPTEMBER 10, 1914.

Mr. GOODWIN of Arkansas introduced the following joint resolution; which was referred to the Committee on Agriculture and ordered to be printed. Joint resolution for the appointment of a National Marketing Commission.

Whereas it is patent that there are defects in the economic system of the United States which affect adversely the producers and the consumers of agricultural products; and

Whereas these defects have been accentuated by the European war and to a degree justifying the recent utterances of the President of the United States in the matter of the high cost of living; and

Whereas various attempts have been made from time to time to overcome these defects, mainly through nongovernmental agencies, and recently under governmental agency under the Bureau of Marketing of the Department of Agriculture; and

Whereas experience has, however, proven that the solution of this question is not to be found in nongovernmental agencies nor is it to be found in a governmental agency. It is to be found in a semiofficial governmental agency, as is here proposed, as witness the success in the European countries of such a system which has swept aside the trusts in food products and which renders the trust an impossibility; and

Whereas the present abnormally high prices for food products not alone offers an opportune time for the establishment of a semiofficial governmental agency as a means for the temporary solution of this problem but also for the organization of the agricultural forces of the United States on the lines indicated as a means for the permanent solution of this problem: Now, therefore, be it

*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled*, That the President be authorized and requested to appoint a National Marketing Commission to be composed of 29 members, 15 of whom shall be farmers and 14 of whom shall be selected with reference to their eminence in commerce, law, finance, and transportation.

SEC. 2. That such National Marketing Commission shall meet in the city of Washington at a time designated by the President and organize by the election of officers, and adopt a plan of action for the effective organization of the States, counties, and localities of the United States for the economic distribution of the products of the farm, with power to act in so far only as affecting individuals and organizations that shall elect to become a part of this national marketing system.

The CHAIRMAN. Gentlemen, we have the honor of having with us Hon. David Lubin, who needs no introduction to the Committee on Agriculture in any country. We will be glad to hear from Mr. Lubin in his own way. Before he begins, however, I desire to say that it is his desire that he be allowed to complete his statement before there are any interruptions. This hearing is on House joint resolution No. 344.

#### STATEMENT OF HON. DAVID LUBIN, DELEGATE OF THE UNITED STATES TO THE INTERNATIONAL INSTITUTE OF AGRICULTURE AT ROME, ITALY.

MR. LUBIN. Mr. Chairman, and gentlemen of the committee, there will be times when this subject will have its ornate speakers, and in this Capitol they will speak the words that will move the people, move the Nation, and move the world on this very theme. I am like a crude pioneer going over ground that has not yet, here in this country, been trodden over, and I am like to a man with coarse boots and broad-brimmed hat, with his kit and frying pan, coffee kettle, and tin plate, who will be followed by and by by a palace of learning, and by the culture and refinement of civilization.

Now, the matter that we have before us is not some eccentric German name which may be sport for a boy, but we must bear well in mind what this name means. It is a name that could hardly be taken down properly by the stenographer without spelling, so I will spell it for him—L-a-n-d-w-i-r-t-s-c-h-a-f-t-s-r-a-t. What does that name mean, and what will it mean for the people of the United States? It will mean much for the people in this country and for this Republic, and for the world, because, as I explained the other evening in my room at the hotel when some of the Members of Congress were present—to me this question is not one of championing or pioneering or laboring for the farmer. One might rationally do so if he is interested in farming to the extent that it makes his championship logical. He may do so if he is a statesman or politician, if you please, who is working for place or honors. Then it becomes a logical part of his business.

Why, then, should I work for the farmer any more than for the carpenter or for the shoemaker? I do not always know. There are times when it is difficult for me to answer that question; but are



we always masters of our motives? Sufficient to say, that in my many years of this seeming self-imposed task of service I appear to be prompted by two egos—the one which bids me to desist and the other which impels onward, and the impelling force seems to be the stronger.

In this persistency there is some compensation, a sufficient compensation. I work for something that has no stomach, no head, no eyes, no hands, no feet. It is not a human being at all; it is not a creature; it is an ideal. And this ideal is the American Republic—yes, it is even greater than the American Republic. The American Republic is only the servant of other nations, of all the other nations in the world. As it advances with the torch in its hand, the torch of progress and civilization, it lightens up the rest of the world. That is the mission of this American Republic. That is the reason for its existence. It does not exist for itself, for its own sake, but for the sake of the other countries. As this American Republic recedes backward it becomes dark; the shadow becomes darker and darker over all the earth, until the twentieth-century nations recede back to the nineteenth and eighteenth, and those of the nineteenth and eighteenth century go backward to the seventeenth and sixteenth century, and as the American Republic advances, so the darkness is tempered by the light, and the light dispels the darkness.

And so then we see that it is no ordinary business, no ordinary mission to serve in behalf of this ideal. If there be no merit in this ideal, then there is no merit in any ideal. If there be no merit in this ideal, then it will be high time for you, gentlemen, you Representatives and Senators, to cast away your toga of office and to take up the cry, "Vanity of vanities, all is vanity." If there be no such ideal, then the Republic is nonsense; then there is nothing; there is nihilism and we are then simply accidental worms and not vice gods here on earth; not placed here by the power we call God, the Ruler, the Absolute, the Power behind phenomena. We then would have no part in conscience, in will, in ideal. And such life would make of curiosity, of interrogation, of progress a mockery. I feel that way sometimes and then all becomes a burden, a weary burden. But of a sudden the darkness vanishes, the light appears, and then comes the irresistible impulse and the imperative mandate which commands work, and yet more work. And now you know what has brought me here. Now that I have stated the motive, we will proceed.

The logic of the case that I am to present is exceedingly simple. I have no new story to tell you. There are gentlemen present, Members of the House and Senate, that know this story almost by heart. I am not to present a brand new idea. I am to present a scheme of work, a system of cooperation, which, when adopted, would substantially do for the farmers of the United States what the chambers of commerce and boards of trade do for commerce and finance.

On the 3d of October it will be 10 years that I have been living in Rome, as delegate of the United States to the International Institute of Agriculture, and in that capacity the opportunity presented itself for observing the operation of the *Landwirtschaftsrat*. This system is substantially in operation in a number of the continental countries, and is more clearly defined in Germany than in the other

countries. The more I observed the operation of that system the more I became convinced that its adoption in the United States would promote the economic interests, not merely of the farmers but of the consumers, of all the American people. Yes; it would even transcend the boundary line of economic advantage; it would go beyond that; it would be a political advantage to the American people.

So believing, I took notes of what I saw and published these notes in pamphlet form and sent them out broadcast throughout the United States. I had expected that as soon as these documents would get into the hands of the American people that they would forthwith start the Landwirtschaftsrat in the United States. But this was not to be; time also is a factor, as well as effort, in the art of promulgation. It took these several years to evolve, as it were, a few advocates for this theme. However, these advocates are here now and so the work is marching on, and presently we may see these advocates multiplied in geometric ratio.

And what of this Landwirtschaftsrat? It would seem to me that it should have had its foundation in a Republic and not in a monarchic country. But that was not to be. Therefore, we must forever give Germany the credit for this idea, but so far as we are concerned let us say "better late than never." In fact, it is not a question of choice at all. The American people must simply adapt and adopt the Landwirtschaftsrat, or drift, as old Rome drifted, toward the ultimate fall.

But what does all this mean? Is this to be received seriously; is it not some far-fetched nonsensical statement? We shall see. You, gentlemen, you, Members of the House of Representatives, and you, Members of the Senate, you shall judge!

But before proceeding I deem it in order to give what I believe to be an interpretation of history. The history of nations, as I read it, may be explained by this illustration, an illustration which I presented at the Nashville conference a couple of years ago, when Senator Fletcher was presiding. It is this; it is a tripod. [Placing his thumb, forefinger, and middle finger on the table in the form of a tripod.] This [indicating the forefinger] is labor, and this [indicating the middle finger] is commerce and finance, and this, the third part of the tripod [indicating the thumb], is agriculture. These two [indicating the forefinger and middle finger] are of the cities, and this [indicating the thumb] is of the country. When each of these three [indicating] remain firmly in place you can then put a tremendous weight on the tripod [indicating], but when any one of these buckle the tripod falls and comes to an end. It happens that this fellow and that fellow [indicating the forefinger and middle finger] are the two progressives because they coalesce; they reason together; then they unionize. This one [indicating the forefinger] with strength in membership; the other one [indicating the middle finger] in the concentration of skillful direction and the concentration of money. The coalescing of these first two, of this fellow and that fellow [indicating] has taken place, not merely in the twentieth century, but it has been the case right along in the past.

Mr. GOODWIN. When you say this fellow and that fellow you mean the laboring man on the one side and the financier on the other?

Mr. LUBIN. Yes; this [indicating the forefinger] is, as before stated, the laborer; this [indicating the middle finger] is the financier. And thus these two [indicating] become the great fighting power in the tripod. To show you that this illustration will apply to times gone by as well as to the present time, I have brought here with me some excerpts which I will read, and by simply changing a word or two make it read as part of ancient history, which indeed it is, or by again making a slight change it would read as modern history of to-day. It is awfully old, it is awfully modern—as old as it can be and as modern as it can possibly be. I will read it in a moment or so.

Let us continue with the illustration. Now, this fellow [indicating the forefinger] is progressive, and this other fellow [indicating the middle finger] is also progressive; in fact, they are more than progressive—they are radicals. But if you should accuse this fellow [indicating the middle finger] of being a radical he will say: "Oh, no; that other fellow [indicating the forefinger] is a radical; he wears a red necktie; he is a socialist, an anarchist." The fact is that they are both radicals. This fellow [indicating the forefinger] wants short hours and big pay, whereas this other fellow [indicating the middle finger] wants more profit. Now, mark—when you give this fellow [indicating the forefinger] the short hours and big pay then he forthwith wants more short hours and big pay; and when you give him short hours and big pay then he wants shorter and bigger pay. Again you give him what he asks for, and again he wants more and more, and there is never any end. As for this other fellow [indicating the middle finger] wanting more profit, when he has it he wants still more, and there is never any end to it.

Now, as for this poor fellow here [indicating the thumb]—the third part of the tripod, the farmer—he has to take what he can get; he is dependent upon the world's price, which is modified for him by the home price. His mind is differently constituted from that of the other two. His mind is tinctured by the soil, influenced by the animals he comes in contact with, by the trees, by the open air, by the weather; in fact he is quite close to mother earth. The result is that these two fellows in the tripod [indicating the forefinger and middle finger] are keen for advantages, but this third part of the tripod [indicating the thumb] seems slow, stupid, stunned as it were. So this third fellow waits and hopes for something, but what that something is he does not exactly know. Nevertheless, this third fellow has merit—great merit—for he is the conservative. That is his great value, for he keeps the other two divisions of the tripod, the two radicals, in check.

It is amusing to note the opinion these two fellows [indicating the forefinger and middle finger] have of this third fellow [indicating the thumb]. In Bible times they called him "Am-haaretz," which literally means the man of the earth, the countryman. In ancient Rome and Greece he was known as a villain, a man that lives in the village; a coward, a man that herded cows; a pagan, a man that lives in a small town; a heathen, a man that lived on the heath.

Yet all of these were the words used in olden times to designate farmers. These are now all uncomplimentary terms, but when we want this man's vote we call him the right arm of the Nation,

nature's nobleman. And what purpose does this man serve? A very valuable purpose; his conservatism tends to keep these other fellows [indicating the forefinger and middle finger] from eating themselves up. These two fellows [indicating the forefinger and middle finger] would run each other off the face of the earth, but this fellow [indicating the thumb] checks that running. He says, "Where are you running to?" They say, "We will show you"—"Give us your vote and we will show you." Now, it takes this fellow, this farmer [indicating the thumb] such an awfully long time to be convinced and converted that the whole session is adjourned before they can carry their radical measures.

So they try again the next time and are compelled to modify and keep on modifying, and this modifying is brought about through the slowness of this conservative. So then, when you kill this conservative, when you kill this farmer [indicating the thumb], you kill the goose that lays the golden egg, and the Nation is dead.

Let us see how this worked out in Rome, ancient Rome. If a man from Mars visited the earth during the several epochs of Rome's history, and if he had come down to the earth during the time of Augustus Cæsar, he would have said: "Now, this is strength; this is beauty; this is the height of sublime power." But the man of Mars would have been mistaken, for at that time Rome was really dead, though it was a time when Rome was beautiful, as New York is beautiful now, with its skyscrapers and miles of palaces, and like other cities of the United States. And now let us see whether the American Republic is living and how much of it is alive and how much of it is dead.

We read in the newspapers that the farmers of the United States were never more prosperous than they are to-day; that they own one or two automobiles apiece. We read that their sons go to universities, that they have got lots of money in the bank—so much money that they don't know what to do with it.

Then, again, we hear of other statements that the Nation is strong in proportion to its liabilities and assets, just as is the strength of a merchant. Should Dun and Bradstreet give a report of a merchant that his liabilities are \$8,000 and his assets \$150, that merchant would be a dead proposition if Dun and Bradstreet can make it so.

Now, let us take up the assets of the Nation. In proportion as this fellow [indicating the thumb], the farmer, is strong, these other two fellows [indicating the forefinger, labor, and middle finger, capital] stand where they are, and you can put all the weight you please on top of the tripod and the tripod is solid; the Nation stands. But in proportion as this fellow is weak [indicating the thumb], no matter how strong these two are [indicating the forefinger and middle finger], this one will buckle [indicating the thumb], and down comes the Nation. And now mark well, when is this fellow [indicating the thumb] strong? Only so long as he holds the land; but when he is replaced by the renter you have lost your conservative and you have now got a radical in his place, and a curious kind of a radical.

When the city man plays radical he seems to be full of dash and swear words, sand-lot, and froth; nevertheless, he will run in the first hole when the policeman runs after him. But when the farmer turns radical and lets loose he does not run away; he grabs a pitchfork or a scythe and goes on a rampage; he is then like the genii

out of a bottle; you can't put him back again. And when does he run loose? When you transform him from the landowner into the renter.

And so in old Rome. So long as the farmer owned the land nothing could move the Republic, but when the capitalist got the laborers herded together in big armies, and when they captured countries and brought cheap corn into Italy, the capitalist began to compete with the home farmers, and the price of corn went down so low that the farmers of Italy got into debt to the Roman nobles, and again the price was lowered and the farmer got further into debt. As he could not pay he was foreclosed and driven off his land. The farmers became radicals and they ran to Rome and said, "Give us something." And so ambitious politicians came along and one said, "Follow me and I will give you corn." And the next one came along saying: "Rather follow me and I will give you corn and wine." Another increased the bid saying: "Follow me and I will give you corn, wine, and oil." Still another, with vehement gesture, announced: "If you follow me I will give you corn, wine, oil, and pork." "Ah, but listen to me," yelled the final bidder, "follow me, all of you, and I will give you corn, wine, oil, pork, and magnificent shows in the arena." And so Rome fell. And we still go there to see her ruins. And many of the descendants of the noble Romans are about the streets of our cities with organ and monkey.

And so does it befall all nations whenever the third man in the tripod, the farmer, is divested of his land; whenever the landowning farmer is replaced by the renter; whenever the conservative of the nation is transmuted into the destructive radical.

And now let us see how we stand. Let us take up the assets and liabilities of this question so far as the American Republic is concerned. The life of this Nation is less than 150 years. We began this national life with an unbounded domain of land. This land was substantially given free to the farmers, who became independent landowners—"landlords."

But what do we find to-day? This: The figures of the Census Bureau tell us that 37 per cent of the agricultural land in the United States is farmed by renters; and is not this coming dangerously close to the cause which destroyed old Rome? Sixteen per cent of these renters were made in the last 10 years, and if this goes on in the same ratio what must it all end in? What but the same destruction as that which befell old Rome.

And now for these quotations which I spoke of some time ago. Let us take them up for a moment. They are from Karthoff's *The Rise of Christianity*.

In speaking of the time of Augustus Cæsar, he says:

The Roman noble becomes a relentless exploiter of the poor peasant. He is a speculator on a grand scale and menaces the State.

This is interesting. It sounds much the same as what we may find in the papers of the United States at any time. It sounds very much as if there were trusts in those days just as there are in our day, and that the mischiefs that were done to the Roman Republic by these trusts are now being done right here in our own Republic by the modern trusts.

Let us see what else he says about this matter:

Right accommodates itself entirely to might; it applies to private life the fundamental principles of political annexation. Gain is booty; not a claim to the outcome of labor, but occupation, appropriation of an enemy's goods.

This sounds quite familiar to the ear. It sounds like what we hear at the present time in our day.

And now let us proceed further with these ancient trusts. The writer says:

There is no political and social, and certainly no religious or ethical, resistance to the evils of this great concentration of capital. The capitalistic accumulation on an agrarian basis has the whole power of the State at its disposal at Rome—the army, the fleet, the law, and the government.

Indeed, there is evidently nothing new under the sun, for as it was in old Rome so it is here.

And now let us see what else is said:

So the great serpent that is to strangle the finest strength of Rome, its peasantry, brings its coils closer and closer together.

And then what happened? Let us hear Tiberius Gracchus:

The wild beast has its cavern and its den; every one of them has its place of refuge. But those who are called the lords of the earth have nothing left but light and sunshine. There is not a stone that they can call their own and lay their weary head to rest on.

But every effort to reform the situation in the Roman world completely failed.

This, then, is a weak spot in the life of this Republic. There is nothing to fear from foreign invasions, but there is everything to fear from the independent landowning farmer whenever he is transmuted into a renter, whenever he takes up his stand with the radicals.

During the last couple of decades we have been busy with legislative measures for keeping out what we denominate "undesirable foreigners." But are these foreigners really so undesirable as they seem to be? Are they not, after all, the raw materials of what this Republic is composed? Are these foreigners really as dangerous to the life of this Nation as they are said to be? Are they really as dangerous as the manipulators who obtain ownership of vast tracts of land in order that they may establish and perpetuate the renting system in our midst? Which of these two foreign elements would it be safer to admit and which to exclude? Would it not be safer to admit the poor and lowly and to exclude those who would convert the free landowning farmer into a dependent renter and into a radical?

Now, then, with all the foregoing as a premise we will now proceed with the case. First of all, what is the Landwirtschaftsrat? And right here we have the authoritative information on pages 399 and 400 of the report of the American commission (S. Doc. 214). And I want to state while I am on that subject that some of you gentlemen here will very shortly recognize the value of this Senate Document 214. While the American commission in its trip through the European countries may not have done great wonders or returned to us finished financiers, the book that they brought back contains the testimony on the subject before us and on rural credit, testimony which was officially given by some of the most eminent people in Europe conversant with the subject.

I will, therefore, Mr. Chairman, ask that your secretary read some excerpts from pages 399 and 400 of that book.

The CHAIRMAN. The secretary is not here now. Mr. Hegelsen, will you read that?

Mr. HEGELSEN (reading):

**STATEMENT OF MR. DADE, SECRETARY GENERAL OF THE LANDWIRTSCHAFTSRAT OF BERLIN.**

The German Empire is composed of 24 States. The largest of these is the Kingdom of Prussia, which is divided into 12 Provinces. Each of these Provinces is required by Prussian law to elect a chamber of agriculture. The same system prevails in the other German States; all have their chambers of agriculture instituted under law. Each of these chambers of agriculture sends one or more delegates, proportionate to its importance, to the German Landwirtschaftsrat, which thus becomes the official council of agriculture for the whole of the German Empire. The Landwirtschaftsrat acts as an official advisory board, with right of criticism and initiative on all agricultural legislation affecting the whole of the German Empire. You can see what power such a body can exercise if you will transfer it to the United States. Just imagine that in every State you had an organization counting some 20,000 members, and these were all federated, and you had, sitting in Washington at stated periods, the council elected by these farmers of all the States to watch over their interests in matters of legislation.

The question was then asked:

Q. What would be the position of agriculture in Germany if you had no such organization?—A. We could do nothing; we should have no influence either on home or foreign policy.

Q. Do you attribute the success of Germany as an agricultural country to the Landwirtschaftsrat?—A. Yes; the Landwirtschaftsrat is one of the factors in this success. It has secured success from the legislative and political end.

Speaking on this subject, Baron Hermann von Schorn, of Munich, member of the leading cooperative societies of Bavaria, said:

The Imperial German Landwirtschaftsrat covers the whole of Germany; it is the semi-official link connecting the official body, the Imperial Government, with the unofficial, with the people actually engaged in agriculture. It works from the top down and from the bottom up.

I will now give the questions I asked and the replies obtained from the secretary general of the similar institution for Austria, and Landwirtschaftsgesellschaft:

Q. Is your association an official, semi-official, or voluntary body?—A. It is semi-official; the Government is in direct relation with it.

Q. Is it under law?—A. Yes; under national and provincial law; it is required to assist the Government as an advisory body in its work for the promotion of agriculture.

Q. If I understand you rightly, your agricultural societies, from the central society down to the local and provincial societies, are connected with the central Government?—A. Yes; there is close contact between the Government and the agricultural societies.

Q. Have these societies only the right to act as advisory boards or have they also the right of initiative in matters of agricultural legislation?—A. They have certain rights of initiative.

Q. If I understood you rightly, the following comparison could then be made: Agriculture in Austria is a body in which all the organs are connected with the central organ, the heart; it is a body in which the circulation proceeds normally from the heart to the limbs and organs; whereas agriculture in the United States seems to be a body in which there is no proper circulation from the heart to the individual limbs and organs, and from the limbs and organs to the heart.—A. Your comparison is correct, at least so far as Austrian agriculture is concerned.

Mr. LUBIN. It will thus be seen that the German Landwirtschaftsrat is an entity, which has its beginning in the township, then up to the county, then it takes in a State, then the Province, and then finally the National Landwirtschaftsrat.

In accordance with law, each farmer in a township assessed for taxation has a certain amount of that assessment set aside for the Landwirtschaftsrat. The township member then has a vote for delegates to the chambers of agriculture, and the chambers of agriculture elect the members of the Landwirtschaftsrat; in all, some 72 members for the German Empire. It has its seat in Berlin and usually holds its session when the Reichstag meets. It is a deliberative and consultative body with advisory powers. The Reichstag must submit to this institution all pending laws directly or indirectly affecting agriculture. The Landwirtschaftsrat tenders its opinion to the Reichstag on all such measures pending, and these opinions receive the most careful attention from the Reichstag, for these opinions are influenced by the will of the farmers from the small township right up to the county, State, the Province, and the Nation. The other functions of the Landwirtschaftsrat is the supervision and direction it gives to the economic distribution of the products of the farm.

Thus it may be seen at a glance how effective such an organization must be in the economic and political history of the nation. The first and most significant service rendered by the Landwirtschaftsrat is that they render trusts in food products an impossibility.

Before the Landwirtschaftsrat was established in the European countries they had food-product trusts, chicken trusts, potato trusts, egg trusts, meat trusts, and butter trusts, as we have them here, not as systematized as here, but then that was years ago, when they were not even systematized here. And it can be safely asserted that if there were no Landwirtschaftsrat institutions in the European countries at the present there would have been as many systematized trusts there now as here. But under the Landwirtschaftsrat system in the European countries, such a thing as a trust in food products is substantially and practically an impossibility.

From time to time spasmodic efforts are made to fight the trust in the United States. Ordinarily the American people pursue sane and rational methods. They are noted for employing the right means for the attainment of certain ends, but in the matter of the trust the American people have not so far employed rational means toward the given end. There is a constant reiteration of taking up irrelevant and ineffective means toward the attainment of a given end, toward the doing away with the trust. It is a fortunate thing that shoe-makers and weavers are more rational; otherwise we would have irrational shoes and irrational cloth. We have thousands of schemes for "fighting" trusts, and a grand old "standby" for talking to the gallery, for making political capital is to clench both hands into fists and come down with both of them simultaneously with a pound on the table, and with rigid, set features, with flashing eyes, and widely-extended mouth, yell out, "By heavens, let us penalize them," all of which, of course, is nonsense, for the way to kill the trust is not to fight them at all; just simply take the goods that the trust deals in and place them out of the trust's reach, and then you have the finish of the trust.



And this is just what the Landwirtschaftsrat means. It means that every European town has its street markets, has its cooperative associations for distribution, has its standardized packages, its standardized packing, the regulated synchronization of its product so that it may be carried and delivered economically. The scientific use of the parcels post and the employment of the local pits and exchanges, and where can there be any room for the trust when such things are done by the people themselves under the direction of the Landwirtschaftsrat?

Mr. GOODWIN. The object of the resolution is to bring the producer into more immediate contact with the consumer of his product, and in that way the trust will be eliminated, and the producer will receive more for the product of his toil, and the consumer will buy the agricultural products for less than he is now buying them, for the reason that in the meantime the middle man, to a large extent, will be eliminated.

Mr. HAUGEN. The object is to do away with the commission man, and to bring the goods from the farm to the kitchen.

Mr. LUBIN. Yes; what are now known as middle men will, under this proposed national commission, be but employees of the cooperating farmers.

Mr. HELGELSEN. Could you find an American name that would be better understood than the German name Landwirtschaftsrat?

Mr. LUBIN. I hardly think it would be good policy to do that at this time. When we purpose to adapt and adopt the Landwirtschaftsrat to American needs we have a fairly well-defined work before us, but if we were to simply say that we want a national agricultural council that would not be definite, for it would permit of any number of schemes being taken up, and this would leave us as far off from practical accomplishment as we ever were. I should favor persistency in adhering to the name, at least until after the plan has been adopted, and thereafter employ the term national agricultural council.

Now to continue. If we study the history of the European Landwirtschaftsrat we will find that it was not born in a day; there was groping and struggling for years to build it up. The first efforts, like those in the United States, were attended by nongovernmental and nonofficial national organizations, and there sprang up, like in the United States at the present time, many organizations calling themselves "the national association." But when they attempted to accomplish anything they neutralized each other just as they do here. Each of them claimed to represent the nation, when in fact none of them represented the nation. As a result there was confusion, discord, and inefficiency.

Seemingly, we in the United States are passing through similar experiences in our economic history to those passed through in the European countries. We have evolved up to the stage when a number of unofficial, nongovernmental associations are endeavoring to shape and handle the economic status of American agriculture. I see that Mr. Hampton is here, and I would be pleased to have him mention some of these national organizations.

Mr. HAMPTON. Well, there is the National Farmers' Union; the National Grange; the Society of Equity; The Gleaners; the Cooper-

ative Farmers' Associations, etc. And then there are the Farmers' National Unions, like the Fruit Growers, Dairy, Elevators, etc.

Mr. LUBIN. Now, all those national organizations in the United States, instead of being a strength are a great weakness, as was the case in the European countries with nonofficial organizations, and evidently like the second step in the European experience we are turning toward the other direction in instituting an official governmental association. This attempt was intended to be through the Bureau of Markets of the Department of Agriculture. But such attempts in the European countries were found to be impracticable.

It was soon perceived that a governmental (official) agency could not be made to work. No government in the world, not even a government as paternal as China, would dare in our day to tell the farmers, "Do not sell to certain dealers on certain streets in Chicago, but sell to other dealers in another street or in another square or in another city." That kind of paternalism may only be permitted under a despot that owns all the people, all the land, everything in the country.

And what, then, is left? One of two things: Either to permit the trusts to run as they are doing now and permit them to employ scientific means for their upbuilding and perpetuation, or the establishment of the semiofficial organizations on the same order as the European semiofficial *Landwirtschaftsrat*.

And right here let it be understood that in instituting the *Landwirtschaftsrat* it does not necessarily follow that it would put out of commission the present nonofficial, nongovernmental associations. On the contrary, they would continue and be very much stronger under the semiofficial governmental association than they have ever been before.

And now the question arises: Assuming that we want the *Landwirtschaftsrat*, what are the necessary steps to be taken in order for us to have it? If it were like a piece of music we could buy a few sheets and play it, but this *Landwirtschaftsrat* must be built up. And right here we are confronted by the problems of a series of practical trials and with heterogeneous factors. More than that, these factors are likely to be blocked by and hampered in almost every move they will attempt. For a fact, it takes more science, more exactness, more skill in the working out a design to be put on a loom to weave a yard of cloth, than it does to build up a *Landwirtschaftsrat*, but then the designer and his loom are not hampered by lack of knowledge nor by destructive forces to interfere with his labors. But in the upbuilding of such an institution as the *Landwirtschaftsrat* we must not be surprised to find a conglomerate mass of incoherent and heterogeneous forces which must first be marshaled into coherency and efficiency, and this is no easy task.

Fortunately a way presents itself how this may be done. The joint resolution (H. J. Res. 344) which has here been presented, on which I am now speaking, offers a pathway, a near pathway, for bringing about the *Landwirtschaftsrat*. It must be understood that this resolution is not for the *Landwirtschaftsrat* proper. It is merely a substitute for it; it is intended merely to serve as a means to the end; as a means of bringing about the *Landwirtschaftsrat*. This resolution calls for an organization which shall work from the top down, whereas the *Landwirtschaftsrat* works from the bottom up. The

Landwirtschaftsrat exerts great power because it expresses the will of the farmer from each township, percolating upward through the county, through the State, up to the national organization, whereas the proposed national organization through this resolution begins from the national organization and percolates downward to the State, the county, and to the township.

The Landwirtschaftsrat is by far the better; that is understood; but the national organization under this resolution will serve the purpose of practical illustration, and thus hasten on the upbuilding of the Landwirtschaftsrat in the United States.

And the recent undue rise in the price of farm products in the United States, which the European war brought on, is a splendid spur toward carrying this resolution, and for the ultimate upbuilding of the Landwirtschaftsrat.

But the strength of this proposed national organization under this joint resolution must rest with the character of the men that are to be appointed by the President of the United States.

The proposed national commission is to consist of 29 men, 15 of them farmers, and each farmer appointed should be a "star" among farm leaders of this country. But of still greater importance to the success of this effort will be the character of the 14 additional members of the commission. If these 14 are to be composed merely of men of mediocre capacities then it would be better to abstain from this effort altogether. If the selection be fortunate, if it consists of men of rare ability in the several avenues indicated; if it consists of high-grade transportation men; of a high-grade man conversant with interstate law; of a high-grade man who understands the uses of money; and above all of high-grade men who have a knowledge of merchandising, both wholesale and retail, of selling in near-by and in remote distances from the place of production, of selling in remote export markets as well as home markets, then the commission is likely to shape the work for which they were appointed into a successful issue. And this in turn will be likely to give us the Landwirtschaftsrat.

So far, however, we have only provided part of the organization—the national commission. But this is merely a part of the plan—merely the first part.

The second part is the State commission, which should be appointed by the governors of each State. The State commission members should, like the national commission, be composed of high-grade men—the best available in the State.

The State commission should have the power to appoint the county committees.

The county committees should have the power to appoint the township committees.

The State, county, and township committees to be governed by rules and by-laws not in conflict with the provisions of the national commission.

Under the direction of the national commission and the State commission the county and township committees will make provisions for synchronizing the products ready for the local markets or for transportation. Local sales shall be (a) Open-air markets on the plazas; (b) indoor markets consisting of sample rooms, pits

or exchanges, and auction rooms; (c) the salesrooms shall have divisions, one for retail selling and another for wholesale selling.

The movement on sales of products within the township to be under the direction of the township committee; and if within county, under direction of the county committee; if within the State, under the direction of the State commission; if outside of the State, under the direction of the national commission.

Senator FLETCHER. A semiofficial commission with offices at the principal distributing centers, and headquarters where the batteries are charged, that are to put in motion the various energies for the general good, could serve most advantageously both the producer and consumer of farm products.

The numerous organizations, widely scattered and wholly disconnected at present, while serving many useful purposes, are not only inadequate, but often conflicting when it comes to handling the problem of economical distribution.

This is the great unsolved problem in this country, and until it is solved there will be waste, unprofitable labor, and high living cost. A commission of experienced, public-spirited men, experts in the various lines involved, in all the elements of proper marketing, with some authority and power behind them, could accomplish results vastly beneficial to all our people. Not only does the tremendous sum of \$6,000,000,000 annually disappear or become absorbed between the farm and the consumer's kitchen, but products of the farm go to waste and bring nothing, while hungry consumers would gladly pay prices running into millions for them if there was a way of getting these to market so that a product which has no value where it is might be placed where it has excellent value, to the benefit of all concerned.

No greater service could be rendered all the people than is possible with such a commission, determined upon the wise solution of the problem of marketing and distribution of the necessities of life.

Mr. LUBIN. In concluding my remarks on the resolution, I wish to say that it is fortunate indeed that the pioneering stage of this work is in the hands of Congress. There is perhaps no body of men in the United States better able to judge the merits of the proposal than the lawmakers of the land. Now, the proposal is practical or it is not.

If it is not, that ends the matter; but if it is, it can be safely counted upon that every Member of the present Congress will feel it his duty not merely to urge the passage of this resolution, but also to exert his best energy toward putting the work called for by the resolution in proper working order.

It must necessarily follow that if the proposal is practical it is of primary interest, not merely to the farmers of the Nation, but to the consumers as well. It will thus follow that in working toward this end every Congressman would keep his pledge to his constituency when he pledged to work for their interests—his constituency of the country and his constituency of the cities.

And there is perhaps no other question that can be introduced in Congress which would serve a better index to indicate the value of such services than this measure.

From time to time the American people have been fortunate in their Congressmen, when power and ability was made to shine forth

in clear relief; power and ability which was appreciated, not merely by the American people but by the people of the world; power and ability which has been made manifest in the imperishable records of history. But the man of power and ability must have the opportunity to exercise that power and that ability, otherwise that power is merely potential and that ability likewise so. Now, then, the proposal before us offers that opportunity or it does not. If it does not, that ends the matter. But if it does, it offers a great opportunity, perhaps the greatest opportunity that ever presented itself to the lawmakers of our land, for is it a small matter to conserve the conservatives of our Nation? Is it a small matter to cut out, as with surgeon's knife, the cancerous trusts which tend to devour the conservative, the American farmer on the one hand and to eat up the substance of labor on the other. Is it a small matter to so purify this Republic, to so eliminate the decaying and destructive influences which shall bring added strength and perpetuity to this Republic? Is it a small matter to so conserve the liberties of the American people in order that they may prove an example, serve as schoolmasters of all the nations of the earth, teaching them what liberty is and what liberty means?

American orators in speaking to the American people on liberty point to the American flag, but is not the flag merely a symbol of liberty? There is a practical phase of liberty as well as a theoretical phase, and the practical phase is not less a reality than is the theoretical. And what is that practical phase. Place an American dollar in your hand and contemplate it for a moment. That dollar gives the owner a right to buy a dollar's worth of goods or it gives him the right to enjoy the leisure which the dollar will afford him. The dollar is a measure of so much goods, of so much leisure. The owner of the dollar has the right to a dollar's worth; he has the liberty of a dollar's worth. Is this not so? It certainly is so. And now, what must follow if there are influences at work that tend to diminish the purchasing power of that dollar—influences which work covertly, unjustly? Does it not follow that these influences deprive the owner of the dollar of liberty, and in depriving that owner of his liberty does that not diminish the value of the symbol, the value of the flag? And if we so labor as to do away with this covertness, with this injustice in exchange, does that not strengthen the value of the symbol, the integrity of the American flag?

This measure then means very much for the American people or it does not. If it means much it affords the opportunity to each Member of Congress to convert the potential ability and the potential power into real ability and real power. Surely the scope of the work under this resolution is as great an incentive as ever prompted the greatest of historical characters. Up to the twentieth century our children have been taught to believe that Alexander, Caesar, Hannibal, and Napoleon were the great men. From the twentieth century onward our children will be taught that the conservators of liberty, especially practical liberty, are the great men. The coming great men will be those that will make straight the path in the field of exchange between man and man. This is upbuilding, conserving, whereas the great war lords are but wholesale butchers. I now leave this matter in your hands, feeling sure that as American legislators

who have the welfare of the American people at heart, this measure is in the right hands. And now, finally, I thank you, Mr. Chairman and gentlemen for the courtesy of this hearing, and the sustained interest in the subject which you have manifested.

The CHAIRMAN. Gentlemen, I am sure that I speak the wish of every member of this committee, as well as the wish of every member present who is not a member of the committee, when I express to Mr. Lubin the thanks of the committee for his very able and interesting statement. [Applause.]

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# QUARANTINE OF CATTLE

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H. R. 21443

**A BILL TO REIMBURSE OWNERS OF CATTLE EXHIBITED AT THE  
NATIONAL DAIRY SHOW, CHICAGO, ILL., IN NOVEMBER  
1914, AND SINCE THEN DETAINED IN SAID CITY  
BECAUSE OF QUARANTINE ESTABLISHED  
BY UNITED STATES GOVERNMENT**

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**FEBRUARY 25 AND 26, 1915**





## QUARANTINE OF CATTLE.

COMMITTEE ON AGRICULTURE,  
HOUSE OF REPRESENTATIVES,  
*Thursday, February 25, 1915.*

The committee at 10 a. m. to-day met, Hon. Asbury F. Lever (chairman) presiding.

The CHAIRMAN. Gentlemen of the committee, Mr. Cooper, of Wisconsin, who introduced the bill H. R. 21443, requested this hearing. Mr. Cooper is present and will present his case and his witnesses in such way as he desires.

[H. R. 21443, Sixty-third Congress, third session.]

A BILL. To reimburse owners of cattle exhibited at the National Dairy Show at Chicago, Illinois, in November, nineteen hundred and fourteen, and since then detained in said city because of the quarantine established by the United States Government.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That there is hereby appropriated, out of any money in the United States Treasury not otherwise appropriated, the sum of \$500,000, or so much thereof as may be necessary, to reimburse the owners of cattle exhibited at the National Dairy Show at Chicago in November, nineteen hundred and fourteen, for expenses incurred by them as the result of said cattle being then quarantined and since detained at said city by reason of orders issued by the Government of the United States to prevent the spread of an epidemic of foot-and-mouth disease, which said sum is hereby made immediately available.

SEC. 2. That the amounts to be paid to the respective owners of said cattle shall be determined and paid under rules and regulations to be prescribed by the Secretary of the United States Department of Agriculture.

### STATEMENT OF HON. HENRY A. COOPER, A MEMBER OF CONGRESS FROM THE STATE OF WISCONSIN.

Mr. COOPER. Mr. Chairman and gentlemen of the committee: On the 22d of February I received this telegram:

UNION STOCK YARDS, Chicago, Ill.

At meeting held this morning of 40 owners of dairy cattle now in quarantine at Chicago a committee to confer with House committee on your bill H. R. 21443 was appointed, and I am directed to request you to arrange for conference that our committee may be heard. Thursday this week suggested. If convenient kindly advise me, Chicago, by wire, care National Dairy Show, 817 Exchange Avenue, the date arranged. Reference your letter 16th, Baird Waukesha.

W. W. MARSH.

I did not receive that telegram until 11 o'clock at night. The next morning I found the chairman of this committee, Mr. Lever, and arranged for an interview in accordance with the request wired me by Mr. Marsh, with whom I am not personally acquainted. After making the arrangements with Chairman Lever, I wired Mr. Marsh that the meeting had been arranged, giving the hour and day and requesting that he wire me whether he would come, etc., since which time I have not heard a word, directly or indirectly,

from Mr. Marsh. After I had sent the telegram to Mr. Marsh, Representative Vollmer called on me in the House and stated that a gentleman from Iowa had wired him that he was anxious to be at the hearing on the bill, and Mr. Vollmer wanted to know if he could be heard and I said, "Yes; wire him."

The CHAIRMAN. I understand that that gentleman is present.

Mr. HUDSON. I am chairman of the executive committee of the Jersey Cattle Club. We only received our dispatches yesterday morning and we had to wire to the other people. It has been very close work for us to make the appointment here. If we had had two or three days we could undoubtedly have secured a large delegation here.

Mr. COOPER. Mr. Marsh wired me to have the hearing this morning at 10 o'clock.

Mr. HUDSON. I suppose they started at once immediately upon the receipt of the telegram.

Mr. COOPER. Representative Butler, of Pennsylvania, came to me and said that he had some people in his State who were very anxious to be heard by the committee on this bill.

The CHAIRMAN. I understand that a gentleman from Pennsylvania is present.

Mr. WINSLOW. I am the secretary of the breeders' association.

The CHAIRMAN. You may proceed, Mr. Hudson.

#### STATEMENT OF MR. C. I. HUDSON, OF EAST NORWICH, N. Y.

Mr. HUDSON. I would suggest that the chairman read the communication which he has in reference to this matter.

The CHAIRMAN. I have the following communications:

NEW YORK, N. Y., *February 23, 1915.*

MR. C. I. HUDSON,  
*Galen Hall, Atlantic City, N. J.:*

Skinner, Chicago, telegraphs conference arranged for next Thursday morning 10 o'clock, Agricultural Committee, Washington, to take up Cooper bill to reimburse owners of dairy cattle in quarantine. Exceedingly important your committee be there.

R. M. Gow,  
*Secretary American Jersey Cattle Club.*

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[American Jersey Cattle Co., 324 West Twenty-third Street, New York, N. Y.]

WASHINGTON, D. C., *February 25, 1915.*

#### TO THE COMMITTEE ON AGRICULTURE AND FORESTRY:

We urge an investigation of the origin and cause of the quarantine and present condition arising from the foot and mouth disease from a joint committee of Senate and Congress and that an appropriation be made by the Government to reimburse the innocent exhibitors whose prize herds have been held in quarantine in Chicago since the National Dairy Show up to October 31, 1914, by the Bureau of Animal Industry Veterinarians, United States of America, and the State of Illinois veterinarians. The undersigned are a committee appointed by the American Jersey Cattle Club, representing 17,000 breeders.

C. I. HUDSON, *East Norwich, N. Y.*  
M. D. MUNN, *St. Paul, Minn.*  
S. T. HENNING, *Shelbyville, Ky.*  
Hon. J. J. RICHARDSON, *Davenport, Iowa.*

NILES, MICH., Dec. 7, 1914.

The AMERICAN GUERNSEY CATTLE CLUB,  
Peterboro, N. H.

DEAR SIR: On separate sheets inclosed with this we send you a list of our registered Guernseys killed November 2, 1914, because of "foot-and-mouth" disease.

In addition to this list of 24, we lost one heifer recently purchased, the papers not having reached us yet, and one heifer not registered.

Also 25 grades, the result of 30 years of constant selection and the use of Guernsey sires since 1898.

This disease started with one pig on the farm of Mr. W. E. Hoadley, about a mile from our farm, during the first week in August.

The first case being very light and recovering quickly, little attention was paid it till the cows were taken and Dr. W. T. Graham, V. S., was called on August 23.

Finding the same disease on another farm 1 mile distant, Dr. Graham notified the State veterinarian, Dr. Dumphy, and he came to Niles September 3, and immediately called a Federal inspector from Detroit. On September 4 the two took matter from the sick animals and sent to Washington, saying that it would require 10 days to decide on the nature of the disease.

Herds Nos. 3 and 4 were exposed to No. 2, and came down soon after the doctors left, with herd No. 5 a few days later. Nothing was done to check the disease, and on September 16 our first cow was taken, and the rest of the herd within about 10 days.

All our cases were mild and recovered in a short time, most of the cows giving nearly a normal flow of milk when killed November 2.

Teams working on the highway and camped in the yards on infected farms Nos. 2, 3, and 5 went home on Sundays to towns west of Niles and no doubt carried the disease. In this territory skim milk was returned to farmers from the creamery and infected the stock.

Then seven cars with stock in each from infected farms were shipped from Buchanan, Mich., to Chicago, and you know the rest.

Yours, truly,

BALLARD BROS.

This statement says that the outbreak was prior to the National Dairy Show.

Mr. HUDSON. Yes, sir; the first week in August, at Niles, Mich.

Mr. COOPER. Some three months before the show, and these people took their prize herds down there although the disease had already broken out not a great ways from Chicago.

Mr. MOSS. Mr. Chairman, I do not see any representative of the Department of Agriculture present. Were they notified?

The CHAIRMAN. Yes, sir. I think a representative has just come in. Do you represent the Bureau of Animal Industry?

Mr. RAMSEY. Yes, sir.

The CHAIRMAN. You may proceed in your own way, Mr. Hudson.

Mr. HUDSON. I have been a breeder for 30 years and I have taken a great interest in reference to the foot-and-mouth disease in this country. I am chairman of the executive committee of the American Jersey Cattle Club. None of the exhibitors was notified previous to the starting of the National Dairy Show, which was on October 22, in Chicago—

Mr. HAWLEY. What year?

Mr. HUDSON. 1914. There was no doubt that the disease was known at the Union Stock Yards as early as the 17th day of September.

Mr. ANDERSON. Known by whom?

Mr. HUDSON. By the people in the Union Stock Yards.

Mr. MOSS. What date?

Mr. HUDSON. The 17th day of September, 1914.

Mr. MOSS. Known to whom?

Mr. HUDSON. Known to the authorities of the Union Stock Yards at Chicago. The exhibitors, not knowing that, were allowed to congregate at the National Dairy Show. The first intimation we had of it—it was not an intimation—was the use of disinfectants in the barn and around the cattle sheds. We inquired and they said that it was a precaution which they were taking in case there should be any disease.

On the afternoon of October 29 they called a meeting of the exhibitors, of which I was president—there were about 50 to 75 exhibitors—and we saw Dr. Dyson, the Illinois State veterinarian, and I asked him whether there had been any case of the disease in the National Dairy Show, and he said: "Not that I know of now." Within five minutes Dr. Bennett, of the United States Agricultural Bureau, came into the room and before he could get to Dr. Dyson, I said: "Dr. Bennett, will you state if there is any case of the foot-and-mouth disease in the Union Stock Yards?" and he made this statement: "There have been three steers passed through the yard that had the disease." That was the first intimation we had of any disease, which was on the 29th or 30th of October. Dr. Bennett had not had a chance to get to Dr. Dyson and confer, and the two statements were diametrically opposite. This letter from Ballard Bros., of Niles, Mich., which is now a part of your proceedings, states when it broke out, and that the people were told they had better ship cattle out of the county at once, and they did ship to the Union Stock Yards and other stock yards, and so scattered the disease from yard to yard throughout the country.

Mr. ANDERSON. Told by whom?

Mr. HUDSON. The veterinarian, as stated in that letter.

The CHAIRMAN. Let us see if we get this right. This disease broke out the first week in November?

Mr. HUDSON. No, sir; the first week in August.

The CHAIRMAN. When was your dairy show held?

Mr. HUDSON. From the 21st of October to the 31st of October.

The CHAIRMAN. It was practically three months from the breaking out of the disease until you held your stock show?

Mr. HUDSON. Yes, sir; two and one-half months.

The CHAIRMAN. In the meantime, had there been any publication in the newspapers of the fact that the foot-and-mouth disease had broken out in this country?

Mr. HUDSON. I never knew of it until the morning of October 29 or 30.

The CHAIRMAN. As a matter of fact, do you know whether any newspaper carried the statement that the foot-and-mouth disease had broken out at Niles, Mich.?

Mr. HUDSON. Not any newspaper that I saw.

Mr. MOSS. When, according to your opinion, did the Government first come in the possession of knowledge that the foot-and-mouth disease existed in the United States?

Mr. HUDSON. This letter states that a United States representative was called there from Detroit early in September. He diagnosed it as stomatitis. Then they sent for another United States veterinarian, I think, about the middle of September, and he said unquestionably that it was the foot-and-mouth disease.

Mr. MOSS. I understand you to make the statement to the committee that the Bureau of Animal Industry or some of its representatives had knowledge of the existence of the foot-and-mouth disease in the United States in September and had actually diagnosed the case, and yet you were not notified of it when you took your stock to Chicago?

Mr. HUDSON. That is our understanding. Dr. Eikhorn was the second veterinarian, if you would like to have his name, who said that it was the foot-and-mouth disease.

Mr. ANDERSON. Whom did he represent?

Mr. HUDSON. The Bureau of Animal Industry. He is the authority on the foot-and-mouth disease.

Mr. ANDERSON. Who is Dr. Dumphy?

Mr. HUDSON. He is the State veterinarian of Michigan.

Mr. ANDERSON. And Dr. Graham?

Mr. HUDSON. He is a veterinarian in Michigan.

Mr. MOSS. If you can, give the committee the name of the first veterinarian in the employ of the United States Department of Agriculture who diagnosed this disease as the foot-and-mouth disease.

Mr. HUDSON. My impression is that it was Dr. Eikhorn.

The CHAIRMAN. He was called in consultation by Dr. Dumphy?

Mr. HUDSON. The first visit was from a veterinarian of the United States Department of Agriculture from Detroit. I do not know his name. He made the diagnosis as stomatitis. Then in September they sent Dr. Eikhorn there.

The CHAIRMAN. I am not interested in the one who made the false diagnosis; I am interested in the one who made the first correct diagnosis.

Mr. HUDSON. I think it was Dr. Eikhorn.

The CHAIRMAN. At what time?

Mr. HUDSON. A month previous to the meeting of the show.

Mrs. HENNING. Dr. Bennett is the veterinarian who was so successful with the disease in 1908 when the foot-and-mouth disease broke out, and he has been very active all along in trying to stamp it out. Am I not correct?

Mr. RAMSEY. Dr. Bennett was in charge of the foot-and-mouth outbreak in 1908.

Mr. ANDERSON. What is your theory of the liability of the Government for the expense incurred in connection with this quarantine?

Mr. HUDSON. The United States has charge of the inspection of the Union Stock Yards, and the veterinarian there did not report it to the Chief of the Bureau of Animal Industry and allowed these people to assemble there.

Mr. ANDERSON. You think the officers of the Government were negligent in not prohibiting the holding of the show in view of the fact that they had knowledge that the disease existed?

Mr. HUDSON. Yes, sir.

Mr. YOUNG. You made a statement which I did not quite catch, that when this trouble occurred somebody advised the cattle people to ship out all their cattle?

Mr. HUDSON. Yes, sir. That came from the county veterinarian, because there was to be a quarantine put on that county, and if they did not get rid of the cattle they would be in a very serious position.

Mr. YOUNG. That was not any Government agent?

Mr. HUDSON. No, sir. They started and they got in the stock yards from Niles, Mich., in September.

The CHAIRMAN. This bill calls for an appropriation of \$500,000. What is the theory of the amount fixed in this bill, what loss have you suffered, the total loss?

Mr. HUDSON. That amount was stated without any suggestion, without any consultation with anybody.

The CHAIRMAN. I assume that.

Mr. HUDSON. Of course, that is subject to amendment. I just fixed that amount because I knew of the great expense the men had been to there in caring for the valuable cattle as carefully as they have.

The CHAIRMAN. What is the amount you have suffered on account of this quarantine?

Mr. HUDSON. There are between 40 and 50 exhibitors there and 740 head of cattle of the different breeds—Guernseys, Jerseys, Belted Holland, Brown Swiss, and Holsteins. I think that covers them. Many of these animals are extremely valuable. It has taken from 15 to 30 years to bring some of these animals to perfection. A young bull, a son of the grand champion, I bred his breed for 30 years. He was not exhibited by me. He was an extremely valuable animal. The disease struck him while there and he died. What value the owner would place on that animal, after 30 years of breeding, an animal that had obtained 97 championships, I do not know, because the value of an animal is what the owner would wish to put on it for breeding purposes. I have kept a very carefully tabulated statement of the actual expenses to those people and they already represent \$150,000 to \$175,000.

The CHAIRMAN. Did you exhibit your stock?

Mr. HUDSON. I did not, but a number of the animals that I bred were exhibited.

Mr. HELGESEN. That does not include the loss of the animals?

Mr. HUDSON. No, sir.

Mr. ANDERSON. Were any of them slaughtered?

Mr. HUDSON. Not the prize herd, no, sir. I would say that we do not know how much longer they will be kept there. Our quarters are at the Hawthorn race track. We secured new quarters at the Hawthorn race track, leased them to the first of April. What that will add to the bill we do not know. Dr. Eikhorn went there in January and said that the herd was absolutely free from the foot-and-mouth disease, and if he had the power he would allow the animals to go home at once. If we can ship out by the end of the next two months I think that \$250,000 to \$300,000 would cover the entire matter. We have had a few animals die, not many, two or three grand champions.

The CHAIRMAN. What do you figure as the expense?

Mr. HUDSON. Up to the present time, I think, \$150,000.

The CHAIRMAN. How do you reach that amount?

Mr. HUDSON. For feed, grain, wages, salaries, stall rents, assessments, etc. For instance, we pay Dr. Hughes \$3,000 a month. He is considered the authority in this country outside of Government employ. He is employed by the Breeders' Association.

The CHAIRMAN. You can not very well figure in the cost of the feed because you would have to feed the animals any how?

Mr. HUDSON. I will tell you something about the prices which we have been forced to pay. Hay in this country ranges from \$16 to \$24 per ton this side of the Mississippi.

The CHAIRMAN. What are you paying out there?

Mr. HUDSON. \$40 a ton. Besides we have from 54 to 80 pounds to the hundred.

Mr. HAUGEN. Is that the ordinary price, \$40 a ton?

Mr. HUDSON. That is what they charge us.

Mr. HAUGEN. In the stockyards?

Mr. HUDSON. Yes, sir.

Mr. HAUGEN. The Stock Yards Co. charges that?

Mr. HUDSON. Yes, sir; and they compel us to buy there.

Mr. HAUGEN. Is that the ordinary price around there?

Mr. HUDSON. It is only during exhibition week. The animals or horses usually stay there for a week. They claim it is on account of the cost of handling them and they just double up the price on everything. Bran the same way.

Mr. HAUGEN. The Stock Yards Co. has taken advantage of the situation?

Mr. HUDSON. During exhibition week they charge the same prices.

Mr. HAUGEN. I mean during the quarantine period?

Mr. HUDSON. They charge the same rate during exhibition week as during the quarantine period.

Mr. HAUGEN. What did they charge there before?

Mr. HUDSON. It is like a county fair or a State fair.

Mr. HAUGEN. There has been a good deal of complaint to me that they have been holding up the people and charging exorbitant prices.

Mr. HUDSON. Yes, sir.

Mr. HAUGEN. In fact, our legislature passed a resolution memorializing Congress to that effect. My understanding is that the average price paid for hay at the stock yards runs about \$1.25 a hundred, which would be \$25 a ton.

Mr. HUDSON. That I can not tell you.

Mr. HAUGEN. You have been paying \$40?

Mr. HUDSON. Yes, sir.

Mr. HAUGEN. And buying hay from the Stock Yards Co.?

Mr. HUDSON. Yes, sir; we are compelled to.

Mr. ANDERSON. Why?

Mr. HUDSON. They would not let any other feed come there.

Mr. HAUGEN. What is the price paid for corn?

Mr. HUDSON. My impression is that the price of bran was \$35 a ton and the ordinary price is \$22 to \$24 a ton.

Mr. HAUGEN. And corn?

Mr. HUDSON. I do not know the price of corn, but the price of oil meal was \$40 to \$45 a ton, and I think \$26 a ton is the ordinary price. They almost double all prices.

The CHAIRMAN. You say that they compel you to pay these prices and buy from the Union Stock Yards Co. Whom do you mean by that?

Mr. HUDSON. They control these buildings and they will allow nothing to be shipped in there.

Mrs. HENNING. The Union Stock Yards Co. owns the buildings.

The CHAIRMAN. You used the words that they compelled you to buy from this Union Stock Yards Co. Who does that, the Federal Government or the Union Stock Yards Co.?

Mr. HUDSON. The Union Stock Yards Co.

Mr. MOSS. Did any of the cattle actually have the foot-and-mouth disease?

Mr. HUDSON. They had what they call the secondary, the same as a person would carry the measles from one room to another without coming in contact. All of the animals, every one of them, recovered.

Mr. MOSS. Some of them actually did have the foot-and-mouth disease?

Mr. HUDSON. Secondary or light cases.

Mr. MOSS. All of them were exposed to it?

Mr. HUDSON. No, sir; only by contact.

Mr. MOSS. Was there any proposition made by the Government to slaughter the cattle?

Mr. HUDSON. That is contradictory. It was reported that there was an order sent out originally to slaughter those animals, and influence was brought to bear so that the order was held up, so I understand, and Secretary Houston, I believe, said that the animals would not be slaughtered until it was proved that it was necessary to slaughter them. The first order, I understand, was given out, but denied by some people. Whether it was denied by the bureau or not, I do not know.

Mr. MOSS. What was the attitude of the owners of the cattle as to the slaughtering?

Mr. HUDSON. They were absolutely opposed to it. There are several different kinds of foot-and-mouth disease. Some are virulent to the extreme, and those animals should be slaughtered; there is no question about that. Others are what they call the light form. One of the animals who had the light form in three weeks after she recovered was giving 70 pounds of milk a day. That does not look very virulent. There were very many other animals in the same way.

There were some Guernseys here that contracted the disease 20-odd years ago in this country, in Maryland, and it was stated by the veterinarians that those animals would not breed, but their descendants are now some of the greatest animals we have in the country to-day. That is positive proof.

Mr. MOSS. You think the attitude of these owners was absolutely opposed to slaughter. Was that on account of the fact that the slaughtering was unnecessary to protect the cattle or on account of the value of the cattle?

Mr. HUDSON. Because it was unnecessary and on account of the breeding value of these animals which had taken many of the breeders 15 to 30 years to perfect.

Mr. MOSS. Had they been a herd of ordinary cattle, what would have been the attitude of the owners—would they have resisted slaughtering?

Mr. HUDSON. No; because they would get pretty near the value.

Mr. MOSS. The fact of their being so very valuable was the reason for wanting to resist the slaughtering?



Mr. HUDSON. And on account of the breeding conditions in this country. We are trying to upbuild the breeding animals of this country and of the world. With the growth of the cities, milk, butter, and everything else is, according to the population, decreasing; there is no question about that. We are trying to breed better producers all the time. We have been doing that for many years.

Mr. MOSS. Was any negotiation entered into between the owners of the cattle and the Government looking to obviating the necessity of slaughtering?

Mr. HUDSON. Yes, sir; we sent a committee to Dr. Melvin to say that it was absolutely unnecessary to slaughter these animals, and Secretary Houston held up the slaughtering.

Mr. MOSS. What proposition did this committee, representing the owners of the cattle, make that they would be willing to do if the Government would forego the power to slaughter the animals?

Mr. HUDSON. They can answer that question.

Mr. MOSS. Can you answer the question?

Mr. HUDSON. No, sir; except by hearsay.

Mr. MOSS. Then I will pass it. These cattle have been removed to new quarters?

Mr. HUDSON. Yes, sir; moved 8 miles.

Mr. MOSS. Was that removal made at the request of the Government or at the request of the owners of the cattle?

Mr. HUDSON. That was a suggestion made by the veterinarian; he ordered it.

Mr. MOSS. Did the suggestion first come from a Government veterinarian?

Mr. HUDSON. The suggestion came from the veterinarian; he took it out of our hands.

Mr. REILLY. What veterinarian?

Mr. HUDSON. The State veterinarian.

Mr. MOSS. A veterinarian employed by the Government or a veterinarian employed by the owners?

Mr. HUDSON. The State veterinarian.

Mr. MOSS. He suggested a change?

Mr. HUDSON. Yes, sir. Those animals have been there now since the 4th of January, and up to yesterday, the 24th of February, no animal had died.

Mr. MOSS. Can you tell the committee whether or not it is a fact that the owners of the cattle agreed that if the Government would consent to this change that they would pay all of the expenses, including the treatment of the cattle?

Mr. HUDSON. No, sir; not to my knowledge.

Mr. MOSS. You do not know whether they did or did not make it?

Mr. HUDSON. I feel very certain they did not.

Mr. MOSS. I have no special knowledge, except what I read in the papers. I certainly saw the statement that the owners of the cattle had proposed to the Government that they would pay all of the expenses of the treatment, supervision, and expenses of every kind, and that the Government might hold these cattle until it was absolutely demonstrated that they were not infected and release them.

Mr. HUDSON. There was a suggestion made by some persons outside without authority that that be carried out. I do not know that it was ever suggested by the committee.

Mr. Moss. You admit that the Government did have the right to kill the cattle of the National Dairy Show—

Mr. HUDSON (interposing). No, sir; it was private property.

Mr. Moss. You admit the fact that a great many thousands of herds of cattle have been slaughtered under exactly the same circumstances, without the consent of the owners?

Mr. HUDSON. Necessarily, in many instances.

Mr. Moss. Then you have no knowledge whatever of negotiations between the owners of these cattle and the Government, if any, under the terms of which the slaughter should not take place?

Mr. HUDSON. I have no particular information of it.

Mr. ANDERSON. You made some statement with respect to the prices charged for feed and hay; now, what did you do? Did you rent a building for that show?

Mr. HUDSON. This show is held under the auspices of the National Dairy Show, which rents buildings during exhibition week from the Union Stock Yards, the owner of those buildings.

Mr. ANDERSON. Is it a fact that what you might call extraordinary prices are charged in order to make an income from the feed, etc., to cover the rent and other expenses of the show?

Mr. HUDSON. Well, the buildings, I might say, are worth maybe \$20,000, and the rent was about \$100,000 a year, or at that ratio.

Mr. ANDERSON. Is it a fact that that is the excuse for making those charges—that is, that it is necessary in order to cover the expenses in connection with the show?

Mr. HUDSON. Yes, sir. We have nothing, and we are charged store rent and that store rent is something prohibitive.

Mr. ANDERSON. What do you mean by store rent?

Mr. HUDSON. Each animal is stalled during the show.

Mr. ANDERSON. Who makes that charge?

Mr. HUDSON. The Union Stock Yards.

The CHAIRMAN. The Government has nothing to do with that?

Mr. HUDSON. No, sir.

The CHAIRMAN. The Government has nothing to do with the charging of rents?

Mr. HUDSON. No, sir.

Mr. Moss. Were you charged any higher for feed and other things than the farmers were charged when they shipped cattle to the stockyards to be sold?

Mr. HUDSON. That I can not tell. I do not know what the farmer pays who sells animals there for killing purposes.

Mr. Moss. For instance, cattle shipped there by farmers are fed hay, and the charge for that is fixed by the Union Stock Yards; now, do you know whether you paid the regular price?

Mr. HUDSON. That I can not say.

Mr. REILLY. What price are you paying at the new place?

Mr. HUDSON. It is very much lower.

Mr. REILLY. Is it the ordinary price?

Mr. HUDSON. It is about the ordinary cost.

Mr. REILLY. If information had been circulated that the foot-and-mouth disease had broken out at Niles, Mich., in September, would there have been any stock show in Chicago?

Mr. HUDSON. No, sir.

Mr. REILLY. The breeders would not have gone there with their cattle?

Mr. HUDSON. Unquestionably not; because they know what a violent disease this is. We could not have sent the animals there and exposed them and brought the disease back among the finest herds in this country.

Mr. REILLY. Then, your contention is that the Government is liable for and ought to pay the cost of this quarantine because the Government officials failed to give public notice of the fact that the foot-and-mouth disease existed at Niles, Mich.?

Mr. HUDSON. Yes, sir.

Mr. McLAUGHLIN. How far is Niles, Mich., from Chicago?

Mr. HUDSON. I think it is a very short distance.

Mr. McLAUGHLIN. About 100 miles?

Mr. HUDSON. It is from one to two hundred miles.

Mr. COOPER. Suppose the Government had slaughtered these splendid herds of cattle and had paid its share of the cost, what would the Government have had to pay?

Mr. HUDSON. That 740 head were worth to these breeders anywhere from \$1,250,000 to \$2,000,000.

Mr. ANDERSON. Of course the Government would not under any circumstances pay the breeding value of the cattle.

Mr. HUDSON. In one of the counties in Illinois recently, or two months or so after this exhibition was over, they killed a brown Swiss herd. The county or State appointed one appraiser and the owner appointed another appraiser and they took a third appraiser, and the value of those animals was put down to the State at forty-odd thousand dollars, or at the actual breeding value to the owners.

Mr. ANDERSON. I do not think it has ever been the intention of Congress or of the department to pay other than the utility value of cattle.

Mr. HUDSON. Allow me to say this: Can you tell the difference between the value of these dairy cattle and the value of the beef breeds for slaughter purposes for food? That is an entirely different proposition. There have been very few, if any, dairy animals ever killed in the United States because of foot-and-mouth disease. There have been very few of them killed, but it has usually been the scrub animal or the animal fit only for beef purposes.

Mr. ANDERSON. Just to get at your point of view, I will ask you whether you think the Government ought to pay the breeding value of the herd of cattle in case it finds it necessary to slaughter them in the course of stamping out a disease like the foot-and-mouth disease?

Mr. HUDSON. When these animals were on exhibition and the animals were congregated, and the Government did not stop the congregation of those animals, the Government should unquestionably pay the value of the property destroyed.

The CHAIRMAN. I understand that Mr. French, the chairman of this committee, is present and that he has all the facts at his fingers' ends. It would probably be better for you to allot the time, Mr. French, if you have more than one witness to be heard, so that we can get the testimony in consecutive order.

**STATEMENT OF MR. G. WATSON FRENCH, OF DAVENPORT, IOWA, CHAIRMAN OF THE DAIRY EXHIBITORS' ASSOCIATION.**

Mr. FRENCH. Mr. Chairman and gentlemen of the committee, allow me to say now that if I do not talk very clearly it is because I am a little bit under the weather. I have a bad cold, but will do the best I can.

I am representing 41 breeders from 12 different States who exhibited at the dairy show in Chicago last fall, where there was the best collection of dairy cattle ever shown in this country at one time. These breeders are men of character and standing in their various communities and are law-abiding citizens who are engaged in the great work of raising the standard of efficiency of the milk-producing cows for the benefit of humanity. When the show opened, about October 24, it was known by the Government veterinarians that cattle from Michigan to be shown at the dairy show had probably been exposed to the foot-and-mouth disease. So Dr. Bennett ordered shavings thoroughly disinfected to be placed before the cattle stables. He being fearful of infection, they should have prevented the show before it started.

Mr. HAUGEN. Who was that?

Mr. FRENCH. The Government veterinarian in charge at Chicago.

Mr. ANDERSON. In charge of what?

Mr. FRENCH. He was the veterinarian of the United States Government in Chicago. The Government inspections started precautions after the arrival of the first cattle on October 21, because they were fearful of an outbreak.

Mr. McLAUGHLIN. Will you state the date of the outbreak at Niles, Mich.?

Mr. FRENCH. I have not the exact date, but my recollection is that the outbreak at Niles, Mich., was about the 1st of October.

Mr. HUDSON. Here is a letter showing it was about the 7th of August.

Mr. FRENCH. I am talking about this outbreak to which our cattle were exposed.

Mr. McLAUGHLIN. I mean the first outbreak of which the Government had any knowledge.

Mr. FRENCH. That was in August.

Mr. McLAUGHLIN. And the show was upon what date?

Mr. FRENCH. On the 21st of October.

Mr. HUDSON. On the 22d of October.

Mr. FRENCH. The cattle came in on the 21st of October, and that is when the exhibition commenced. This place here in Michigan that might have been infected was Grass Lake. I suppose that is what you are asking about. That had developed early in October.

Mr. McLAUGHLIN. Do you mean Grass Lake in Michigan?

Mr. FRENCH. Yes, sir.

Mr. McLAUGHLIN. That is a long ways from Niles.

Mr. FRENCH. Yes, sir. On Thursday, October 29, Dr. Dyson, the Illinois State veterinarian, and Dr. Bennett, the Government veterinarian, stated in open meeting that they were absolutely sure that there was no danger among the cattle, nor any possible danger, and

that they did not know of a single case in the stockyards. They did know, however, that early in October cattle and hogs from the infected districts in Michigan had passed through the yards.

Mr. HOWELL. Had your association been told of that fact?

Mr. FRENCH. No, sir; this fact developed later.

Mr. HAUGEN. You said that a veterinarian who was supposed to have knowledge of foot-and-mouth disease assured you that there was no danger, but you did not state what veterinarian knew of its existence. Was that a veterinarian of the Federal Government?

Mr. FRENCH. The veterinarians of the Federal Government. It is their duty to advise the State governments.

Mr. HAUGEN. They advised the shipping of the cattle?

Mr. FRENCH. Yes, sir; and if they were competent they must have known that this statement that there was no possible danger was untrue. To prove that they knew that there was danger on the same day that they made their statement that there was no possible danger, they refused the owners of cattle permission to remove their cattle, claiming that they wanted them to remain under observation for a week. No foot-and-mouth disease had then broken out among our cattle; they stated positively that there was none in the yards, and the owners of the cattle asked permission to send them in sealed cars, disinfected, back to their own States, and their own States offered to receive them, but the Government refused to allow them to go. As a matter of fact, the moment that our animals entered the yard on the 21st of October, the Government had control of them and they never intended to allow them to go out. On the other hand, at the same time, they allowed the Union Stock Yards to ship feeders on Friday, Saturday, Monday, and Tuesday following, and those shipments carried the disease to Iowa, Illinois, Indiana, and other States.

Mr. HAUGEN. They were shipped out under what regulations?

Mr. FRENCH. Of the United States Government. The same officials who closed up our cattle and refused to allow them shipped in sealed cars had charge of those shipments.

Mr. HAUGEN. What was the regulation as to the disinfection of cattle going through the stockyards?

Mr. FRENCH. I do not know whether there was any disinfecting done or not; we offered to pay for disinfection.

Mr. HAUGEN. You claim that a discrimination was made?

Mr. FRENCH. I claim that the farmer can not get the same treatment at the hands of the veterinarians of the United States Government at the Chicago yards, stationed there in full charge, that the Union Stock Yards can get and have been getting all the time. Gentlemen, they allowed a member of the Union Stock Yards to ship 8,000 cattle affected with the foot-and-mouth disease from Peoria, Ill., to the Union Stock Yards, where they were slaughtered and sold.

The CHAIRMAN. Was that done under a Federal order or State order?

Mr. FRENCH. Both of them had to agree to it.

Mr. HAUGEN. Was that done by permission of an official of the Federal Government?

Mr. FRENCH. That was by permission of the Federal Government.

Mr. HAUGEN. Had those cattle been exposed to the infection?

Mr. FRENCH. I do not know whether it is necessary for cattle to be exposed in order to have the foot-and-mouth disease; but they had the foot-and-mouth disease.

Mr. HAUGEN. Do you mean the cattle that were shipped?

Mr. FRENCH. Yes, sir. The cattle were at a distillery at Peoria before they were shipped. I would not make that statement here unless I was sure of my grounds.

Mr. HAUGEN. You say that they had the foot-and-mouth disease?

Mr. FRENCH. Yes, sir, they had the foot-and-mouth disease at Peoria.

Mr. HAUGEN. And that fact has been established?

Mr. FRENCH. It has been admitted by the United States officials.

Mr. HAUGEN. And the cattle were shipped?

Mr. FRENCH. The cattle were shipped to the Union Stock Yards and were sold as beef.

Mr. HAUGEN. The explanation, I think, is this, that of a herd of, say, 100 head of cattle, if 5 were affected with the disease, those affected would be slaughtered on the premises and the balance of them shipped in sealed cars to Chicago for immediate slaughter. I simply wish to clear it up, that is all. I am glad you made the statement, because that is what the committee wants, the facts.

Mr. LESH. Did the State of Iowa allow them to kill those cattle?

Mr. FRENCH. This was in Illinois.

Mr. HOWELL. Who owned the cattle in Illinois?

Mr. FRENCH. The Morris Packing Co. owned the cattle and shipped them there to sell them.

Mr. HAUGEN. They were fattened at the distillery at Peoria?

Mr. FRENCH. Yes, sir.

Mr. LESH. Did the State of Illinois pay for those cattle?

Mr. FRENCH. The Morris Packing Co. made them into beef, and you probably have had some of the steaks ere this.

Mr. HOWELL. Does the Morris Packing Co. have any connection with the Union Stock Yards?

Mr. FRENCH. They are members.

Mr. MOSS. When a territory had been quarantined within a State and they wanted to ship animals out for immediate slaughter, that permission was given everywhere, was it not?

Mr. FRENCH. No, sir.

Mr. MOSS. It was not?

Mr. FRENCH. At first it was not. At first they could not ship them for immediate slaughter, but afterwards that was modified so that they could ship them for immediate slaughter except from a 5-mile radius of the place quarantined.

Mr. MOSS. Let us take that up: Under what conditions could they ship them out of quarantine?

Mr. FRENCH. For immediate slaughter.

Mr. MOSS. By getting the permission of the State veterinarian, and this veterinarian had to be sent to examine the stock and had to give a certificate that the stock was not diseased—that is true, is it not?

Mr. FRENCH. That is the ordinary procedure.

Mr. MOSS. That is the regulation issued by the United States Government, is it not?

Mr. FRENCH. I do not know; I have no personal knowledge of it.

Mr. MOSS. Would you say it is not so?

Mr. FRENCH. I would not.

Mr. MOSS. As a matter of fact, is it not true that when that regulation was modified all stock could be shipped out of quarantine areas to the stockyard and put in the quarantine section for immediate slaughter, provided before they were shipped they were examined by a competent veterinarian and a certificate given by him to the effect that the stock was not suffering from foot-and-mouth disease?

Mr. FRENCH. I have not known of any cases where they allowed them shipped out of the 5-mile radius under those circumstances.

Mr. MOSS. You have not quite answered the question I put to you.

Mr. FRENCH. Let me explain the conditions, and perhaps that will answer your question. They never quarantined these cattle, and never shipped within the 5-mile radius, but they simply shipped them out—

Mr. MOSS (interposing). I am not interested in that. I am interested in the general statement from you that the farmers can not get the same advantages from the Government that other people get. I want to know, as a matter of fact, whether stock that is quarantined can be shipped out of that quarantined area for immediate slaughter, provided the stock is first examined at the place where quarantined and pronounced to be free from the disease.

Mr. FRENCH. I think that a later modification was made so that that might be done.

Mr. MOSS. Do you understand that within a strictly State area the United States Government has power greater than the State in quarantine matters?

Mr. FRENCH. No, sir.

Mr. MOSS. In shipping cattle from Peoria, Ill., to Chicago, Ill., which had the higher power, the State of Illinois or the Federal Department of Agriculture?

Mr. FRENCH. The State of Illinois.

Mr. MOSS. So that the question there was one of joint action by the State and the United States, with the State having higher power?

Mr. FRENCH. Yes, sir.

Mr. HUDSON. In the State.

Mr. FRENCH. Now, these animals, the moment they are put in the yard, are subject to governmental inspection.

Mr. MOSS. That is, when they reach the stockyards at Chicago?

Mr. FRENCH. Yes, sir.

Mr. MOSS. But not before that time?

Mr. FRENCH. No, sir. When they reached there, then the Government passed those cattle and they were made into beef.

Mr. HELGESEN. Did the Government veterinarian have knowledge of the fact that those cattle, when they were at Peoria, had the foot-and-mouth disease?

Mr. FRENCH. He had assistants there at the time to examine them.

Mr. HELGESEN. Did the Federal Government give its consent to their sale as beef after developing the fact that they had foot-and-mouth disease?

Mr. FRENCH. They did.

Mr. MOSS. Could the Government have prevented the shipment of cattle from Peoria to Chicago, provided the State veterinarian passed them?

Mr. FRENCH. They could not.

Mr. HELGESEN. But, as a matter of fact, it was not necessary for the Government veterinarian to give his consent, even though he could not stop it, was it?

Mr. FRENCH. What a veterinarian will do is beyond my conception. On October 29 the officials of the United States Government took possession of our cattle, and the veterinarians used every means in their power to force the slaughter of those animals. The breeders then appealed to the Secretary of Agriculture, who, appreciating the disaster to the future welfare of the breeders of this country which would follow the destruction of that wonderful foundation stock, some of which could not be replaced by money, because they are the only living examples of certain lines of breeding, promised to help to save the herds, for which all credit to him. We employed Dr. Hughes, of Chicago, the president of the veterinarian college there, after he had found that it was agreeable to the Bureau of Animal Industry and to Dr. Dyson, the State veterinarian of Illinois. All of the veterinarians were cocksure—none of them having had any experience with the foot-and-mouth disease personally, as in this country they have always killed the stock when they could, and so there was no chance given for observation—that these animals in most cases would die and in the other cases would not be worth saving. But when Dr. Hughes was successful, then all of the machinations of bureaucracy were leveled against him and our cattle, in order to belittle the whole proposition, although before taking up this matter he was acknowledged as one of the leading authorities. Although he had stood at the top of his profession, these attacks were made on him through the press and through bulletins, some of which were paid for by the stock-yards and sent out by the United States Government veterinarians, thereby inflaming the whole country.

Mr. ANDERSON. What do you mean by that?

Mr. FRENCH. I mean to say that the stock yards furnished a great many thousands and tens of thousands of circulars giving their side of the case, which were sent out by the Bureau of Animal Industry.

Mr. HELGESEN. Sent out as Government documents?

Mr. FRENCH. I do not know.

Mr. HELGESEN. Was it franked?

Mr. FRENCH. I do not know. I know that they were sent out.

Mr. ANDERSON. Have you a copy of the document?

Mr. FRENCH. I have not at the moment, but I think I can get it for you.

Mr. HELGESEN. I suggest that you furnish a copy of it for the record.

Mr. FRENCH. I will do so.

The bureau has issued literature on the foot-and-mouth disease from Germany, Great Britain, and South America, but nothing from the United States, because no test had ever been made before here.

Mr. ANDERSON. Do you contend that the policy of the Government in slaughtering cattle affected with foot-and-mouth disease is an improper policy?

Mr. FRENCH. I do not.



Mr. ANDERSON. Do you contend that the European policy is a better one?

Mr. FRENCH. I have never claimed that the Government's policy was wrong. It is purely an economic question.

Mr. REILLY. How many head of the dairy herd cattle had the foot-and-mouth disease?

Mr. FRENCH. All the animals had it.

Mr. REILLY. All of them had it?

Mr. FRENCH. They were all locked in and we were not allowed to separate the animals. We begged the privilege of separating them so as to limit the disease, but they were all confined in one place so that all of them might take it. They condemned the whole bunch to slaughter and they played no favorites.

Now, in order to show you the way in which the veterinarians have been working this business, which has been extremely profitable to them, after having denounced the fact that the breeders' herd was not underground, publicly and openly in their convention last week they criticised most seriously the Secretary of Agriculture. In order to find out how far they would go, I offered this resolution. I tried to word it so that it would give offense to no one.

Mr. LEE. Before what body was it offered?

Mr. FRENCH. The United States Live Stock Sanitary Association, which is composed largely of the veterinarians of the United States. The resolution I offered is as follows:

*Resolved*, That it is the sense of the members of the United States Live Stock Sanitary Association in convention assembled, that the action of the Secretary of Agriculture at Washington and of the State Board of Live Stock Commissioners of Illinois, be and is hereby highly commended for permitting the owners of the Dairy Show animals, which contracted foot-and-mouth disease while on exhibition at the Union Stock Yards, Chicago, in the fall of 1914, to carry their cattle over for the purpose of observing the progress of the disease, and when it had apparently run its course, submitting these cattle to experiments so as to determine their freedom, or otherwise, from disease, and, at the same time, by careful observation and the taking of accurate scientific data, contributing to the general knowledge on this disease—a knowledge which at the present time is woefully incomplete—and which in the future may be of inestimable value in determining what disposition should be made of animals under similar circumstances.

Mr. ANDERSON. If I remember the testimony of Dr. Melvin before the committee some time ago, he said the reason why the department and its veterinarians had not experimented with the disease was because they thought it was so dangerous that it ought not to be permitted. Do you disagree with that view?

Mr. FRENCH. I do not.

Mr. ANDERSON. I understood that you contended that the Government ought to take these diseased cattle and experiment with the disease in order to determine its character—

Mr. FRENCH (interposing). I am speaking of this specific case. These animals are in an ideal quarantine place, and in my opinion it would have been a crime to have killed those animals until every effort had been made to try to save them.

Mr. ANDERSON. I want to ask another question, because I think I may have misunderstood you. I understood you to say that all of these animals were affected with foot-and-mouth disease?

Mr. FRENCH. Yes, sir; all had the foot-and-mouth disease.

Mr. ANDERSON. Those cattle at the show?

Mr. FRENCH. Yes, sir.

Mr. HOWELL. I understood your statement to be that some of them had it and that you were compelled to keep all of them together, so that all of them got it?

Mr. FRENCH. One animal had it at first, and when that animal had it we asked permission to separate the animals, but we were refused that permission. Some of the animals did not get the disease for six weeks, and a large number of them could have been saved if we had been allowed to separate them.

Mr. HOWELL. What action was taken on that resolution?

Mr. FRENCH. It didn't even get out of the subcommittee. They said in view of the remarks that had been made on the floor two days before on the foot-and-mouth disease it would be useless; but, however, we could bring it on the floor. But we had no desire to see a mess made of it, and perhaps a reflection upon the Secretary of Agriculture, and therefore it was not pressed.

Mr. HUDSON. Mr. Chairman, may I ask Mr. French a question?

The CHAIRMAN. Certainly.

Mr. HUDSON. Mr. French, will you tell the members of the committee present if there were any of the seven hundred and forty and odd animals that died with the foot-and-mouth disease and about the number, if there were any?

Mr. FRENCH. No adult animal died of the foot-and-mouth disease. The calves born while the cows were at the height of the fever—most of them died. Of the calves born after the cows recovered, 75 per cent are alive and well, and none of them had the foot-and-mouth disease.

Mr. LEE. Are these cattle entirely recovered?

Mr. FRENCH. I would enter them in a show to-morrow with anybody's cattle; they are that good.

Mr. HUDSON. I should like to ask Mr. French one other question?

The CHAIRMAN. Certainly.

Mr. HUDSON. Mr. French, can you state whether the Breeders' Association agreed at any time to carry on this experiment at the expense of the breeders, they paying the expense of the entire experiment?

Mr. FRENCH. No one who had any authority to speak made any such agreement.

Mr. MOSS. What proposal was made, either with or without authority?

Mr. FRENCH. I never heard of a proposal being made that looked toward the breeders doing anything but obtaining their money in the end from the United States Government.

Mr. MOSS. You stated that the owners sent a committee to confer with the Secretary of Agriculture?

Mr. FRENCH. Yes, sir.

Mr. MOSS. Please state to the committee what the basis of that conference was, what was proposed by the breeders, and what they asked of the Secretary.

Mr. FRENCH. The breeders asked of the Secretary permission to remove the animals from the stock yards owing to the cramped quarters and the excessive cost of food and rent to another place where it would be cheaper to house them and where they could be better cared for.

Mr. Moss. The removal came at the request of the owners of the cattle and was agreed to by the Government?

Mr. FRENCH. Yes, sir.

Mr. Moss. At whose expense was this removal to be made, who was to bear the expense, the owners of the cattle or the Government?

Mr. FRENCH. The owners were compelled to pay the expense in order to get anything done.

Mr. Moss. When they proposed this matter, did they propose to remove them at their own expense, or did they expect the Government to pay the expense?

Mr. FRENCH. We expected the Government to pay the expense.

Mr. Moss. Was that proposed to the Secretary?

Mr. FRENCH. I do not think that anything was said to the Secretary specifically about any payment.

Mr. Moss. Who first secured control of this new site, who secured permission to use it?

Mr. FRENCH. The owners.

Mr. Moss. Were the owners to pay for the rent of the new site?

Mr. FRENCH. Yes, sir.

Mr. Moss. Was there anything said between this committee and the Secretary of Agriculture regarding the expense of the veterinarian to treat the cattle?

Mr. FRENCH. No, sir.

Mr. Moss. Did the owners specifically agree that if the Government would consent to this, they would employ a high-grade veterinarian to treat the cattle and to cure them and to demonstrate the fact that they could go back to the farms with perfect safety?

Mr. FRENCH. Our veterinarian was hired long before we moved from the stock yards.

Mr. Moss. That is true. You understood that removal meant detention for quite a time and did the owners understand that this was brought forth as an alternate proposition to immediate slaughter? Was that right?

Mr. FRENCH. The owners never agreed to immediate slaughter.

Mr. Moss. I understand that, but this conference came about; and was the removal and detention regarded as an alternate proposition to immediate slaughter?

Mr. FRENCH. No, sir.

Mr. Moss. Was there any discussion between your committee and the Secretary of Agriculture as to who should bear the expense of the cattle while in detention?

Mr. FRENCH. That was not mentioned.

Mr. Moss. What was your understanding and the understanding of the committee—that the Government was to pay the expense if the Government would permit the owners to take the cattle to this location, selected by themselves—was the Government to pay the expense or the owners?

Mr. FRENCH. As the Government allowed us to save the cattle, we expected that they would pay all the legitimate bills, and the moving was just as legitimate a bill as the food of the animals.

Mr. Moss. Did you put that up to the Secretary as one condition, that if you removed them to the new quarters you would expect the Government to pay the expense?

Mr. FRENCH. That was not mentioned.

Mr. MOSS. How long after an animal has apparently recovered from the foot-and-mouth disease, in your judgment, can it carry the germs around to the extent of transmitting the disease to another animal?

Mr. FRENCH. The judgment of anybody in this country, outside of two or three people who have had experience in the foot-and-mouth disease in the other country, is worth just the same as yours would be.

Mr. MOSS. Would you consider that Dr. Melvin was one of those whose judgment was worth something?

Mr. FRENCH. No, sir; because he has not had personal knowledge of the disease and as to how it can be transmitted.

Mr. MOSS. I want to read you a statement made by Dr. Melvin before a committee of Congress and see if you agree to it or do not agree to it:

In Europe, where they have had the disease a great deal and have done some experimental work, they find that some animals will remain as carriers of the disease for as long as seven months after they have apparently recovered.

Do you believe that statement is true or not?

Mr. FRENCH. I do not know whether it is true or not.

Mr. HUDSON. I can give you a suggestion on that line.

Mr. MOSS. The value of your herd is largely for reproductive purposes, a breeding herd?

Mr. FRENCH. Yes, sir.

Mr. MOSS. What is the effect of the foot-and-mouth disease upon the power of cattle to reproduce?

Mr. FRENCH. In 1883, from the island of Guernsey, there was a shipment of cattle brought over to this country, quarantined at Baltimore, and afterwards moved over, I think, into Pennsylvania, where they got well; none of them died. The next year two of those animals took the world's record for milk production, and the great bull, Benjamin, who has probably done more for the Guernsey breed than any other bull, was one of those animals. His descendants are in every high-class Guernsey herd in this country to-day.

Mr. MOSS. Here is a statement by Dr. Melvin:

Well, that would be hard to say; that is, how many would completely recover, because many cows that are infected are impaired as to bearing calves afterwards. For instance, they will frequently become sterile for two or three or more years, some of them becoming permanently sterile, and they will not breed.

Have you considered that and do you approve of it?

Mr. FRENCH. Yes, sir; I think if you take 100 cows that some of them are going to be sterile for two or three years or permanently.

Mr. MOSS. He is speaking of the foot-and-mouth disease.

Mr. FRENCH. Of that I know nothing.

Mr. MOSS. In an article by Mr. Saunders, the editor of the *Breeders' Gazette*, he refers to the Mills herd. Is it not a fact that the Mills herd after they were sold did not become productive as breeders?

Mr. FRENCH. Some of them did not.

Mr. MOSS. Mr. Saunders states that the fact that those animals were not productive was because they had had the foot-and-mouth disease.

Mr. FRENCH. I should like to make an explanation. They had the foot-and-mouth disease three years previously and after that they

were sold in England, and the Englishmen came over here and bought those cattle and paid over \$11,000 apiece on the average.

Mr. MOSS. If it should develop in the course of this inquiry that your committee or a committee representing the owners of the cattle went over to the Secretary of Agriculture and requested permission to move their herd to these new quarters that they themselves had rented and the Secretary agreed to it, and if it develops that the owners agreed to treat their own cattle and bear the expense of the detention, would you think that this bill should pass?

Mr. FRENCH. Yes, sir.

Mr. MOSS. Regardless of any representation that the committee representing the owners might have made?

Mr. FRENCH. The expense incurred prior to the removal of the cattle should not be wiped out by that.

Mr. ANDERSON. What was the date of the removal of the cattle from the place where they had been, at the show, to the new place?

Mr. HUDSON. To the Hawthorne race track.

Mr. FRENCH. I have not the exact date; it was early in January.

Mrs. HENNING. The 9th of January.

Mr. HUDSON. I should like to make a statement.

The CHAIRMAN. Certainly.

Mr. HUDSON. The English Government has been testing the foot-and-mouth disease not only in England, but in India, and it found that the longest case after a year's experience in India with the rough buffalo cattle, the worst cattle in India, was 10 days. That would be somewhat different from Dr. Melvin's statement. That has been issued by the English Government within a few months.

Mr. MOSS. What authority?

Mr. HUDSON. It was printed in some of the western farm papers.

Mr. HELGESEN. The removal of the cattle to the place where you have them now was not only a matter of choice; you were compelled to leave the old quarters?

Mr. FRENCH. The rent was so excessive and the cost of the food so high that many of the breeders were compelled to. Let me state right here that most of the breeders are not rich men, and this was a great hardship on them. They also wanted to get the animals where they could get the sunlight and exercise, which they could not get in the cramped quarters.

Mr. MOSS. If it developed in the course of this inquiry that the Government did not have knowledge that there was foot-and-mouth disease in the United States, and did not have knowledge that in taking your cattle to Chicago you were exposing them to the disease, then would you consider that you had a claim against the Government for reimbursement?

Mr. FRENCH. Most assuredly, I would.

Mr. MOSS. I concede the fact that you have made a very damaging statement about the Department of Agriculture that must be cleared up. You have made the statement here that the department did have knowledge and suppressed it, and permitted this show to go on. If that is true, I admit that there should be some impeachments in the Agricultural Department, and I believe that the committee will want to go into that fact. If it developed that the department did not have knowledge, and if it developed that that statement made in perfectly good faith is not true—

Mr. FRENCH (interposing). I have not made the statement that the department had knowledge of it. I said they should have had knowledge of it.

Mr. MOSS. I understood you to say that they had knowledge of it. There is quite a difference between having knowledge and should have had knowledge. Do I understand you to say that your position is that the department should have had knowledge rather than that the department did have knowledge?

Mr. FRENCH. If you will just state the time.

Mr. MOSS. The 21st of October, 1914.

Mr. FRENCH. That they had no knowledge of the disease existing in Michigan at that time?

Mr. MOSS. Yes, sir.

Mr. FRENCH. They absolutely did have knowledge of the disease existing at that time?

Mr. MOSS. Your statement is that at the time you shipped to Chicago the department did have knowledge of the fact that there was foot-and-mouth disease?

Mr. FRENCH. Yes, sir.

Mr. MOSS. I think you also made the statement that it was known by the Government that cattle that was to be shipped from Michigan had been subject to infection?

Mr. FRENCH. Yes, sir.

Mr. HAUGEN. How many cattle were shipped to Chicago from the infected districts of Michigan?

Mr. FRENCH. I do not know how far the districts were marked by the Government as infected, but they were shipped from Michigan. One of our exhibitors was warned coming from the East not to ship by Niles, because they had the foot-and-mouth disease.

The CHAIRMAN. Who warned him?

Mr. FRENCH. When Mr. Ames comes in to-morrow he will bring you the telegram from the department and it will clear this whole matter up.

BOSTON, MASS., February 27, 1915.

Col. G. WATSON FRENCH,

*New Willard Hotel, Washington, D. C. :*

Letter to F. L. Ames, dated October 15, 1914, reference is made to your telegram of this date and bureau reply to same. I understand there has been outbreak of foot-and-mouth disease at Niles, Mich. Intend shipping show herd to National Dairy Show, Chicago, to-morrow. Can you advise me by wire at my expense to North Easton, Mass., whether it is safe to do so. Answered by telegram. Not determined definitely if cattle disease reported Michigan is foot and mouth. Letter follows. In this connection you are informed that should the bureau scientists who are now in Michigan decide that the disease reported from that State is foot-and-mouth disease, prompt steps will be taken to place the infected area under quarantine and absolutely prohibit movement of cattle therefrom. In this way there is little doubt but that cattle exhibited at the National Dairy Show at Chicago will be protected from coming in contact with the disease. Signed, A. D. Melvin. Letter follows.

F. L. AMES.

Mr. HAUGEN. You spoke of Michigan. Michigan is a large State. Have you any knowledge of any cattle being shipped from the infected district?

Mr. FRENCH. I do not know how much the department called the infected district. When they came to Iowa the whole State was infected, and then they modified a part of it.

Mr. HAUGEN. The whole State was quarantined?

Mr. FRENCH. Yes, sir.

Mr. HAUGEN. But not the whole State infected?

Mr. FRENCH. How far the infection extends, I do not know.

Mr. MOSS. Coming back to your statement, I made a memorandum at the time, "It was known to the Government that the cattle to be shown from Michigan had been exposed to the foot-and-mouth disease and that knowledge Dr. Bennett had in his possession." Is that substantially correct? You put it just that way?

Mr. FRENCH. I think I gave you that the first time.

Mr. MOSS. I will wait and refer to the record.

Mr. FRENCH. My statement was that having come from Michigan, where they had the foot-and-mouth disease, they might have been exposed and therefore he took this precaution to disinfect the premises.

Mr. McLAUGHLIN. You spoke about the disease existing at Niles and you mentioned Grass Lake also. What about Grass Lake?

Mr. FRENCH. That was an outbreak that occurred later on.

Mr. McLAUGHLIN. How much later?

Mr. FRENCH. I do not know the exact date.

Mr. McLAUGHLIN. Before the opening of the show?

Mr. FRENCH. Yes, sir; early in October they had it at Grass Lake. Our first cattle came in on the 21st of October.

The CHAIRMAN. Did the department have knowledge of the outbreak at Grass Lake to your own personal knowledge?

Mr. FRENCH. Not to my own personal knowledge, but they unquestionably must have known of it.

Mr. HAWLEY. Did I understand you to say early in your statement that before the cattle came to Chicago three steers infected with the foot-and-mouth disease had passed through the stockyards?

Mr. HUDSON. I made that statement. That statement was made by Dr. Bennett before at least 75 people, that three steers with the foot-and-mouth disease had passed through the yards.

Mr. HAWLEY. Before?

Mr. HUDSON. Yes, sir.

Mr. HAWLEY. How long before?

Mr. HUDSON. The question was not asked as to how long, but whether there was any foot-and-mouth disease in the stockyards, and he made the answer that three steers had passed through the Union Stock Yards. Could you limit it to three with 85,000 animals a day?

Mr. HAUGEN. That was previous to the dairy show?

Mr. HUDSON. Yes, sir. I asked him whether there was any case of foot-and-mouth disease in the stock yards and that was his answer.

Mr. HAWLEY. You do not know how long that was before the show?

Mr. HUDSON. No, sir, I did not ask him that. I asked him whether there was any foot-and-mouth disease in the stockyards and he said that three steers had passed through. I asked him on the 28th or 29th of October. The meeting was on the 28th or 29th of October.

Mr. HAUGEN. What time did the dairy show begin?

Mr. HUDSON. On the 22d.

The CHAIRMAN. You made the inquiry seven days after the show opened?

Mr. HUDSON. After the meeting called when the quarantine was put on. We wanted to know whether the foot-and-mouth disease was there.

The CHAIRMAN. You had made no inquiry before that time?

Mr. HUDSON. How could we?

The CHAIRMAN. What prompted you to make the inquiry?

Mr. HUDSON. Putting the quarantine on.

Mr. MOSS. I should like to put in the record one other statement by Dr. Melvin in regard to quarantine:

The usual practice is, in case the disease is found, to quarantine the entire premises. The Federal Government, in the first instance, would quarantine the entire State, and the State people would quarantine the counties in the localities in which the disease is found.

Do you understand that to be the way the quarantine is carried on, that the Federal Government has no power other than to quarantine the entire State—there could be no interstate shipments—but that inside the boundaries it is purely a State affair?

Mr. FRENCH. Yes, sir.

Mr. HAUGEN. Have you an itemized statement of the claims?

Mr. FRENCH. We have not. This bill was offered by the breeders in Wisconsin, and our association had nothing to do in requesting it. We should not have come before you just at this time when you are so busy; we should have waited until the next Congress.

Mr. HAUGEN. What items should be paid by the Federal Government, in your opinion?

Mr. FRENCH. The expenses of the animals from the 29th day of October.

Mr. HAUGEN. The date of the quarantine?

Mr. FRENCH. Yes, sir; until the day the Government pronounces them free, the actual expense.

Mr. HAUGEN. Until the Government releases them?

Mr. FRENCH. Yes, sir.

The CHAIRMAN. That would include the matter of feed?

Mr. FRENCH. The matter of feed and rent that the Union Stock Yards charged and which we paid under protest. We had quite a tilt with them before they would accept payment under protest, thinking this matter would come up. That bill is simply outrageous.

Mr. HAUGEN. You include the expense of the new quarters?

Mr. FRENCH. Yes, sir.

Mr. HAUGEN. What do you estimate that to be?

Mr. FRENCH. Up to the present time the expense would be in the neighborhood of \$130,000.

Mr. HAUGEN. Does that include the veterinarians employed privately by the association?

Mr. FRENCH. Yes, sir.

Mr. HAUGEN. You have one at \$3,000 a month?

Mr. FRENCH. Our veterinarian is paid \$50 a day.

Mr. HAUGEN. If the Government pursued the policy of slaughtering and paying beef value, what would be the expense to the Government?

Mr. FRENCH. At beef value?

Mr. HAUGEN. Yes, sir.

Mr. FRENCH. \$35,000.

Mr. HAUGEN. There is a difference of \$100,000.

Mr. FRENCH. Yes, sir. Let me tell you that if you go on the theory that you are eradicating the foot-and-mouth disease by paying beef value you will never do it, because the man who has valuable



cattle will not admit that they have the foot-and-mouth disease. With \$500 or \$600 cattle on his place he will not admit that they have the foot-and-mouth disease, and so you can not stamp it out by paying him \$50.

Mr. MOSS. How many cattle are quarantined?

Mr. FRENCH. Seven hundred and some odd.

Mr. MOSS. I understand that having the disease once does not grant immunity?

Mr. FRENCH. I believe that is correct.

Mr. MOSS. Suppose it should develop that you could not hold that many cattle together so that they would all become free of the disease so as to become released safely, how long should the Government maintain the herd there, paying the expense of that proposition?

Mr. FRENCH. My answer would be until the Government releases them.

Mr. MOSS. Would you expect the Government to release them until the Government was fully satisfied that they could go back without danger of spreading the disease?

Mr. FRENCH. No, sir; I would not want that.

Mr. MOSS. Would you expect the Government to treat them indefinitely or until the time should come when the owners would submit to slaughter, if they could not be reclaimed?

Mr. FRENCH. I should never submit to slaughter until I had been paid the just value of my animals, no matter what happened.

Mr. MOSS. Would you expect the Government to take this herd of cattle and treat them differently from what they are treating thousands of other herds of cattle in the United States?

Mr. FRENCH. It is simply an economic question, whether it is cheaper to slaughter these cattle and pay \$1,500,000, or go to work and save them by the expenditure of a couple of hundred thousand dollars.

Mr. MOSS. I understand you to say that you would under no circumstances consent to the slaughter of your cattle except upon the payment of full value, whereas we know that there are hundreds of other herds of cattle that are being slaughtered without the payment of full value?

Mr. FRENCH. The fact that you have perpetrated a wrong on hundreds of other people is no reason why you should perpetrate a wrong on me.

Mr. REILLY. The veterinarian who urged the slaughter of the herd did it on the theory that you could not save them?

Mr. FRENCH. Yes, sir.

Mr. REILLY. That there was no cure for it?

Mr. FRENCH. Yes, sir.

Mr. REILLY. The veterinarian who advocated the saving of the herd did it on the theory that they could be cured?

Mr. FRENCH. Yes, sir.

Mr. ANDERSON. As I understand the situation, it is not claimed by any one that the foot-and-mouth disease is a particularly fatal disease. It is not a fatal disease in the ordinary sense at all. It is a very infectious disease, but many cattle have it and survive. As I understand, a very small proportion of the cattle who have it die. It is not an accurate statement to say that the disease is particularly fatal or that slaughtering is justified by the fact that it is a fatal

disease. In that connection I desire to read a statement by Dr. Melvin:

But, as I have said, the mortality is not high. The disease varies in virulence; some outbreaks are more virulent than others, but I would say that an average mortality would not be more than 3 or 5 per cent.

Mr. REILLY. At home they might have as favorable conditions for curing the disease as they had at Chicago?

Mr. FRENCH. Yes, sir; if we had had sunshine, but outside of sunshine there could not have been.

Mr. REILLY. And in the new place——

Mr. FRENCH (interposing). It is peculiarly located for the purpose for which we are carrying on the experiment.

Mr. HAUGEN. How many cattle are quarantined there?

Mr. FRENCH. Seven hundred and fifty head, in round numbers.

Mr. HAUGEN. Are they fat cattle?

Mr. FRENCH. They are dairy cows.

Mr. HAUGEN. And they are also fat?

Mr. FRENCH. Not really good ones are.

Mr. HAUGEN. I mean are they good cattle? About how much are they worth?

Mr. FRENCH. A fair valuation of them would be \$1,500,000 for the herd.

Mr. HAUGEN. For beef value?

Mr. FRENCH. For beef value possibly \$40 per head.

Mr. HAUGEN. How much would they be worth as dairy cattle, outside of the registration?

Mr. FRENCH. Two or three hundred dollars a head.

Mr. MOSS. Do you know of any country where there has been an outbreak of foot-and-mouth disease where they have cured it by treatment without slaughtering the animals, so as to eradicate the disease in the country?

Mr. FRENCH. No, sir.

Mr. HAUGEN. The value of 750 cattle at \$200 a head would be \$150,000, would it not?

Mr. FRENCH. Yes, sir.

Mr. HAUGEN. What I am trying to get at is whether it would cost the Federal Government more to pay this expense than it would have cost the Government to have slaughtered the cattle and indemnified the owners.

Mr. FRENCH. Not if they adhere to the present policy which they have lately modified. They used to pay nothing but the beef value, but finally they modified that so as to pay the dairy value of the cattle. Under those conditions, it would have cost them much more to have slaughtered the animals and paid for them as dairy animals than it would cost to carry on the experiment.

Mr. HAUGEN. I understood you to say they were worth two or three hundred dollars a head as dairy cattle?

Mr. FRENCH. Yes, sir.

Mr. HAUGEN. Do you mean with the registry?

Mr. FRENCH. No, sir, for their grade as milk producers.

Mr. MOSS. What is your conception as to the obligation of the General Government to deal with the foot-and-mouth disease, anyway?

Mr. FRENCH. I think the General Government should establish an absolute quarantine regardless of expense at the source of infec-

tion, and let the States do the rest of it. In my opinion, if they had adopted that policy at the start there would have been no foot-and-mouth disease in this country to-day.

Mr. MOSS. That is assuming, however, the fact that the Government knew that or had knowledge of it at the source; but suppose the Government did not have knowledge of it at the source and the disease became scattered, then what would you do other than what you have already suggested?

Mr. FRENCH. They have not maintained an effective quarantine in any places where the Government has been in charge.

Mr. MOSS. So it goes back to the theory that the General Government was not on its job at Niles, Mich.?

Mr. FRENCH. Unquestionably, that is true.

Mr. MOSS. On what theory do you hold that the General Government should have detected the disease at Niles, Mich., rather than the State of Michigan?

Mr. FRENCH. The report was made to the General Government that there was a suspicious disease there, and they asked for some of the blood in order to determine whether it was the foot-and-mouth disease. Now, scientists in Germany and England have been trying to isolate that germ for the past 150 years, and have not succeeded in doing so, and I do not know how they figured that they could determine the disease from an examination of the blood.

Mr. MOSS. You are contending here that when the Government does quarantine animals it ought to pay the entire expense of the treatment until the animal gets well and is turned back?

Mr. FRENCH. I have not made that proposition.

Mr. MOSS. I think this does convey that proposition.

Mr. FRENCH. This is an exceptional case, and I say it is simply a question of economics. If it is desirable to save the animals in view of the circumstances, and if the surroundings are such that they can be saved and it is possible, and if there are enough of them to make it worth while to establish an effective quarantine, then, I say, it should be done.

Mr. ANDERSON. If I understand it, it is your position that this herd of cattle was an especially valuable herd, not only to the owners but to the people of the country generally, by reason of its character as a breeding herd, and that, consequently, the Government has an interest in the preservation of that herd, and that because of that interest the Government ought to pay the necessary expense of preserving it. Is that your position?

Mr. FRENCH. That is one argument; but it is cheaper to keep them than to slaughter them.

Mr. REILLY. Suppose the dairy show had convened there and about the last day, without any knowledge on the part of anyone, the foot-and-mouth disease had developed and affected the whole herd; then suppose the Government quarantined the herd and the whole bunch had died from the disease, what would be your judgment as to the duty and liability of the Government?

Mr. HELGESEN. You suggest an impossible case. The fact is that from only 3 to 5 per cent of them die.

Mr. REILLY. Then suppose they had to be slaughtered and were slaughtered justifiably.

Mr. FRENCH. They should pay us the price that those animals would bring when put on the block at public auction.

Mr. REILLY. And when they slaughter a farmer's herd of cattle, they ought to pay him?

Mr. FRENCH. Yes, sir.

Mr. REILLY. Then, you do not justify your claim against the Government because the Government officials failed to notify you in advance of shipping them to that fair that the cattle would be exposed to the foot-and-mouth disease?

Mr. FRENCH. If you had been ill treated you would not overlook anything that you thought might possibly help your side of the case, would you, even though it would not justify the full case?

Mr. REILLY. Do you feel that you have a claim against the Government on either one of those grounds?

Mr. HELGESEN. He might have it on both grounds.

Mr. REILLY. I do not think so. If the Government is obliged to pay every individual in this country the full value of his cattle because they have been affected with disease—a disease that they would have regardless of whether they were at Chicago or at home—

Mr. MOSS (interposing). As a matter of fact, the value of cattle depends largely on the reputation of the breeder—is that true?

Mr. FRENCH. No, sir.

Mr. HUDSON. It is the work of generations and generations. It goes back for hundreds of years.

Mr. MOSS. I want Mr. French's opinion upon that. I have always found it to be the case that when stock is offered for breeding purposes, the value of the animal is supposed to be enhanced if it has taken a first premium in Chicago, Indianapolis, or other places. For instance, I have been told with reference to a litter of puppies that two of them had been sold under contract and that they were to be trained and entered at a show, and if they won a premium it would make the whole litter worth a great deal more.

Mr. HAUGEN. Mr. French, you are familiar with the resolution passed by our legislature relative to the cost of feed and other things you have referred to in connection with the Chicago stockyards. Do you know of any advantage taken of shippers in the way of inordinate charges?

Mr. FRENCH. There were inordinate charges for rent.

Mr. HAUGEN. To what extent?

Mr. FRENCH. About five times the charge that was made against owners was made against the dairy association for the use of a building for the dairy show.

Mr. HAUGEN. How about feed?

Mr. FRENCH. They said that the charges for feed were the regular charges that they charged everybody.

Mr. HAUGEN. About how much were you charged at the time?

Mr. FRENCH. \$40 per ton for hay, which they said was the regular price.

Mr. HAUGEN. Was that the ordinary price?

Mr. FRENCH. What do you mean by the ordinary price—the selling price at Chicago?

Mr. HAUGEN. I mean the regular price charged by the stock yards company?

Mr. FRENCH. The stockyards company charged \$40 per ton for hay.

I would like to have Mr. Spann heard, as he desires to leave to-day. I will be here for two or three days and can have another opportunity later. I want this record cleared up, and I do not want any misun-

derstanding of it in any way. I want the matter made perfectly clear if it can be done, and if anything has been overlooked I hope it will be brought out in the course of the hearings.

The CHAIRMAN. In view of that statement, I think we had better hear Mr. Spann now, as he desires to leave.

**STATEMENT OF MR. W. R. SPANN, OF SHELBYVILLE, KY.**

Mr. SPANN. Mr. Chairman and gentlemen, I will not take up much of your time with this discussion. I am not going to make any charges against anybody, but I am going to give you a plain statement of the facts there as I know them.

Mr. REILLY. What is your business?

Mr. SPANN. I am a farmer.

Mr. REILLY. Have you any relation to this association? Are you an officer of it?

Mr. SPANN. I was an exhibitor of some cattle at Chicago. Gentlemen, I come to give you a statement of the facts which no one I think will gainsay here or anywhere else. I will state, first, why I think the United States Government should pay us for our expenses incurred in connection with this cattle show. It is now generally known that the foot-and-mouth disease developed first at Niles, Mich., and it is known, and not contradicted, that the Government experts went there or were sent some serum and they pronounced the disease stomatitis. Some one has asked whether the Government knew of this disease at Niles, Mich., and my answer is that if they did not know it was foot-and-mouth disease, they should have known it. They had every reason to know it and every opportunity to know it.

Mr. ANDERSON. How long do you think the Government would last if it were called upon to pay every time an officer of the Government makes an error?

Mr. SPANN. I suppose it would last as long as it has lasted.

We went to Chicago with our cattle, arriving there some time about the 21st to the 23d of October. We had no information whatever of the disease being over the country until after we arrived there. I personally certainly did not know it, but after I arrived there I heard that the disease was in Michigan. I noticed it then, as every one else noticed it when going into the barn—all of these cattle were in one large barn, and there were 719 head of them—as I say, everybody noticed, when going into the barn where these cattle were, a mat of shavings filled with disinfectant. I wondered myself at the time what that was for. Now those shavings filled with disinfectant were put there the day after the show started. Why were they put there? They were put there by the instructions and directions of Dr. Bennett, the Government veterinarian in charge at Chicago. Why did he have them put there? It was because he knew there was foot-and-mouth disease there in Niles, Mich., and that it had probably been scattered throughout the entire country. He was discussing that with Mr. Skinner and said that he did not think there was any danger, but was just taking that precaution.

Mr. REILLY. Who was Mr. Skinner?

Mr. SPANN. The secretary of the National Dairy Show at Chicago. Mr. Skinner talked with Mr. Bennett that day, and had talked with him two days before in reference to foot-and-mouth disease, and

asked him if he did not think it would be better to call it off, and he said, "No, I do not think there is any danger."

Mr. McLAUGHLIN. Did Mr. Skinner have any authority to call it off then?

Mr. SPANN. I do not know. The cattle were there, and we knew nothing about the existence of foot-and-mouth disease until the 29th of October. I remember particularly that on Thursday I talked with Mr. Skinner about it. I had a sale of cattle at my home on the 4th of November, and some of these cattle in the exhibition were in that sale, and I asked him if it would be possible to ship the cattle out the next day. He said, "No, we are going to have a meeting this evening; Dr. Bennett has come to me and says that he has a telegram from Dr. Melvin suggesting that these cattle be quarantined or kept here." He did not say "quarantined," but he said they were to be kept here for about a week or ten days for observation. I said, "What is the matter"? He said, "Well, they have found a case of foot-and-mouth disease and they say they will hold these cattle for observation." At 5.30 that afternoon Dr. Bennett, the Government veterinarian and Dr. Dyson, the State veterinarian, attended the meeting of exhibitors. Then Mr. Skinner stated that Dr. Melvin had advised that the cattle be held there for a week or ten days. Both Mr. Hudson and myself asked Dr. Bennett if there was any foot-and-mouth disease among the dairy cattle in that building and whether there were any suspicious cases in that building, and he said, "No, there is no foot-and-mouth disease in Chicago that we know of." Then, I said, "Why do you want to keep us here for a week or ten days"? He said, "The foot-and-mouth disease has passed through the yards out there."

Mr. McLAUGHLIN. Did you learn when that was?

Mr. SPANN. It passed through the yards on the 17th of October. That is when it passed through, but I did not know it then. I learned that afterwards. It passed through then, and they traced it back to that date when the disease developed elsewhere.

Mr. ANDERSON. You say the disease passed through the yards on the 17th of October?

Mr. SPANN. Yes, sir; and they traced the cattle that developed the disease.

Mr. ANDERSON. The question I am interested in at this point is when the Government veterinarian at Chicago found out that those cattle had passed through?

Mr. SPANN. I do not know anything about that.

Mr. McLAUGHLIN. It developed later that those steers had passed through the stockyards on the 17th of October, and that as a result of that the disease had developed elsewhere; now, where did it develop and when?

Mr. SPANN. I can not tell you.

Mr. McLAUGHLIN. It is a fact that at the time the cattle passed through the stockyards the authorities there did not know that they were affected with the foot-and-mouth disease, and they learned that only through the development of the disease later, and then by tracing the thing back they found that those cattle from which the disease originated had passed through the stockyards on that date?

Mr. SPANN. I do not know about that. They knew when we assembled in Chicago that the foot-and-mouth disease was in this country. Now, what precaution did they take about this matter?

They took none at all. I have told you what precaution they took. They did not take the precautions they take in regard to the importation of cattle. I have imported cattle. I sometimes import cattle from the Island of Jersey where the foot-and-mouth disease has never developed. The Island of Jersey is 80 miles off the shore of England, but whenever there is an outbreak of foot-and-mouth disease in England or anywhere in the United Kingdom, they quarantine us for three months from the Island of Jersey. Now, while they establish that quarantine, although they knew that this disease was at Niles, Mich., no steps were taken toward a quarantine. Not only that, but on the 28th of October they told us when we asked permission to take our cattle out that there was no disease there. We wanted to get our cattle away from the stockyards, and we begged them to let us take them out, but they said, "No, you will stay right here." What did the people in Kentucky do? The commissioner of agriculture of the State of Kentucky telegraphed to Dr. Melvin and offered to put these cattle in sealed cars and send them home in charge of a veterinarian. The cars were there in Chicago. They were parked out there, and the commissioner of agriculture said, "I will put them in the cars and take them to Kentucky and quarantine them at the State fair grounds." They said in answer to that offer, "No, they will stay right where they are."

Mr. ANDERSON. Suppose that had been done and the cattle had been quarantined at your State fair grounds, would you now be claiming that the Federal Government ought to pay the cost of that quarantine?

Mr. SPANN. Yes, sir; if they developed the disease. Let me tell you what they did: They refused to allow us to be about them, but on Friday, Saturday, Sunday, Monday, and Tuesday they allowed the Union Stock Yards to ship feeding cattle all over the country. They shipped them to Ohio, Iowa, and all over this country, and that is the way the disease was scattered. While they did that, they would not allow us to take our animals home where they would have been saved. That is why the Government ought to pay us. They took our cattle away from us, and said, "You shall not leave here." I sent a telegram to Dr. Melvin about it. I know he is a most estimable gentleman, but he is mistaken in this matter. I sent him a telegram and I begged him to allow me to take my cattle out. I said, "You will leave my cattle there until they become infected," and that is just what they did. There was no disease there at that time, but they held them in that building until they became infected. Therefore, I say they should pay us. If you do not do it, you destroy the breeding of good cattle in this country—that is what you would do.

There would be no encouragement to poor men to engage in this business. It is the poor man who is bringing up the breeds of cattle in this country. Very few rich men are doing it, and if they do, they take it up merely as a side issue. Now, if you do not give these poor men a return, they must go out of the business. Before this thing came up and before the spread of this disease all over this country, I had cattle on my farm worth \$20,000. I could borrow \$15,000 on them. I needed some money the other day, and wanted to borrow it on my cattle, but the bank would not let me have it. They say: "Your cattle are not an asset," but if they knew that the Government would pay us what these cattle are worth, we could

borrow money on them just as you can on cotton. That is why I say we ought to be paid for these cattle. The Government took the cattle away from us. They put us out of the building, and would not segregate the diseased cattle from the well cattle. We asked them to take the well cattle out and save them, but they would not do it. However, they did not quarantine against men. As you know, when a man has a lot of cattle affected with a disease, when his neighbors learn of it, they run down to see it. Now, they did not quarantine men from these diseased cattle, but they allowed them to go in and look at them. Now, why did they do that? It was because they wanted to kill them—that is the entire reason.

Now, gentlemen, it is not justice, and I do not believe that any one of these intelligent gentlemen here, if they will verify what I have said—and there is no question about the facts—there is not one of you who would deny us justice at the hands of the Government. Now, some gentlemen have been talking about what Dr. Melvin has said about the breeding value of cattle after having this disease. He speaks of some Duchess Shorthorns over in England. I know about that breed of cattle. They were shy breeders before they had the foot-and-mouth disease. This same herd of Duchess Shorthorns were rotten with tuberculosis, and that was the cause of shy breeding among those cattle.

Now, Dr. Melvin has said that only 3 per cent of cattle affected with foot-and-mouth disease die, but what the veterinarians out there said was, "Unless you let us kill these cattle, 30 per cent of them will die, and the rest of them will be of no account for breeding purposes." Now, what is the record? Out of the 719 head we cured every one of them. Not one of them died from the disease, and even the State veterinarian of Illinois who was striving every minute in every way he could to prevent the experiment from being a success—even he does not say that these cattle are not cured.

Gentlemen, they are absolutely well—every one of them. I was there last Tuesday looking them over, and I can tell you that I have got cattle at home that I thought perhaps had better get the foot-and-mouth disease. Those cattle are beautiful. Again, they said that these cattle would not breed, but they are being served by the bulls right there and are breeding right along. Then they say that the calves would die, but some 30 calves have been dropped there since they had the foot-and-mouth disease, and they are as fine a lot of calves as you ever saw. They said furthermore that it would destroy their value for dairy purposes, but I know that within 10 days after a cow had the disease she was yielding 70 pounds of milk per day, and Mr. French has a cow that is possibly giving 80 pounds of milk a day.

Mr. ANDERSON. Of course, there were hundreds of farmers, I take it, all over the United States whose places were quarantined and who were prevented by Federal quarantine from getting their cattle to market, and of course all of those farmers would suffer some loss. Now, would you differentiate between a farmer who might sustain a loss of that kind and a man who suffers a loss like this?

Mr. SPANN. I certainly do. I am one of those same farmers, and I have sold cattle that are still on my farm. I have 30 or 40 head of cattle on my farm that I sold on November 3, and I am feeding them yet.

Mr. ANDERSON. Are they quarantined?



Mr. SPANN. They are quarantined from the States they are to go into. Now, as I have said, the Government took these cattle away from us when they did not have any disease, and when the disease was not within a half mile of them. We wanted to take them away in sealed cars in charge of a veterinarian, but they would not allow us to do it. Therefore, I claim that they infected our cattle.

Mr. HAWLEY. What is your theory as to how your cattle became infected?

Mr. SPANN. From people coming into that building from the stockyards. The first cow that took the disease was a Holstein cow, and it was several days before any other cow took it. If they had allowed us to take the other cattle out they would not have had the foot-and-mouth disease.

Mr. HOWELL. Who were those persons who came in there?

Mr. SPANN. We did not know.

Mr. HUDSON. There were hundreds of employees.

Mr. REILLY. How long was it after the show closed before the first cow had the disease?

Mr. SPANN. I think it was on Tuesday, and the show closed on Thursday night.

Mr. HAWLEY. You say that the disease was brought into this barn by people coming in through the stockyards?

Mr. SPANN. Yes, sir.

Mr. HAWLEY. What has the Government done toward cleaning up those stockyards to prevent the disease from being carried to other herds in other places?

Mr. SPANN. I do not know what was done in Chicago. I do not like to make this statement I am about to make, because I said in the beginning that I would not make any charges against anybody, but this is positively known to be a fact. At the Bourbon stockyards, at Louisville, Ky., 26 miles from my home, they ordered them to clean up the yards after the first outbreak. They told them to clean up the stockyards, and they cleaned them up. Now, what did they do?

To save them the little expense of destroying that trash and manure from the barns the United States Government veterinarians, under whose charge the clean-up was made, allowed them to pile that manure up into a pile as big as a big house, and allowed those farmers that did not have any better sense to come there and haul that manure away and scatter it all over Jefferson County—and they have had an epidemic of foot-and-mouth disease in Jefferson County ever since.

Gentlemen, I do not believe you can quarantine the farms the way the regulations are now enforced. Here is your source of infection [indicating]; and you quarantine 5 miles around that. Everything outside of that 5-mile limit is kept out; but everything inside can move around all right; you have not quarantined 5 miles; you have not quarantined 5 feet, because these people with infected cattle can come right up to that line.

Dr. RAMSAY. The territory up to that 5-mile limit is quarantined, but not close quarantine. Please discriminate between one kind of quarantine and the other.

Mr. SPANN. You speak of a close quarantine; what is your idea of a close quarantine?

Dr. RAMSAY. Allowing nothing at all to move out.

Mr. SPANN. What is to prevent them from moving out? That is just a statement. You can not quarantine them that way. The

only quarantine you can make that will be effective is to quarantine the farm where the disease is, and put your guards there with shot-guns to prevent anything going in or out. That is the only quarantine that will eliminate foot-and-mouth disease.

Mr. MOSS. You said that the Government permitted this manure to which you referred to be hauled out and distributed; was it the United States Department of Agriculture or the State of Kentucky that did that?

Mr. SPANN. The papers every day stated that this was a Government quarantine and S. L. Bond was the Government man in charge.

Mr. MOSS. Your statement, then, is that the United States Department of Agriculture permitted that manure to be taken out of the Bourbon Stock Yards and scattered all over Jefferson County?

Mr. SPANN. Well, my belief is that the State officials were just as much to blame.

Mr. MOSS. But, for the benefit of the record, we would like to know who it was that permitted that to be done. Was it the United States Department of Agriculture or was it the State of Kentucky? That is what we would like to know.

Mr. SPANN. Well, every State is under the domination of the United States Government in this matter—and rightly so—because the United States Government says to them, "If you do not do this thing, or that thing, we can not pay your people for their cattle." Under those conditions what are the States going to do? Just as the Government tells them to do. It is just as when you go to the Union Stock Yards at Chicago and tell them to do certain things; they do just as you say, whether you have the authority or not.

Mr. MOSS. Well, we just want to get the facts, so I should like to ask one or two more questions about this.

Mr. SPANN. Go ahead.

Mr. MOSS. Are we to understand from you that the quarantine measures taken at the stock yards at Indianapolis and the Bourbon Stock Yards in Kentucky were taken under the United States authority and not under the State authority?

Mr. SPANN. They act jointly; and that can be proved.

Mr. MOSS. There was a quarantine laid on the whole of the Union Stock Yards at Chicago; and as long as that quarantine was in force, not any cattle could be shipped out; is that correct?

Mr. SPANN. The papers said there was a quarantine there, but cattle were shipped out on Friday the 30th, Saturday the 31st, Monday the 1st, and Tuesday the 2d.

Mr. MOSS. And the stockyards were under quarantine at that time?

Mr. SPANN. The papers said so; I do not know.

Mr. MOSS. It is quite a different question as to what the papers stated and what was the fact—

Mr. SPANN (interposing). That is what I say. We were quarantined at that time, and they would not let us out of there.

Mr. MOSS. I am not disputing that statement, but the point I want to make is this: The broad statement has been made that the Union Stock Yards could ship cattle out at that time, but that the farmers could not do so. What I want to obtain for the record is this: Is it a fact that there was a quarantine laid upon the Chicago stockyards, and yet while that quarantine was in effect they permitted cattle to go out of the stockyards to be shipped in interstate commerce?

Mr. SPANN. You want to know if the farmer could not do what the stockyards were doing, and I say that is the fact; the stockyards shipped out on Friday, Saturday, Monday and Tuesday, and yet we could not do so.

Mr. MOSS. But what I want to know is were the stockyards under quarantine at that time?

Mr. SPANN. The papers said so.

Mr. HELGESEN. If they were quarantined, why were they not quarantined by the same people?

Mr. SPANN. I know that they were shipped out of the stockyards and we could not ship.

Mr. LESHER. They could not ship them out for anything except immediate slaughter.

Mr. SPANN. Yes; they were shipping cattle. There was a farmer who shipped on Wednesday, and on Friday and Saturday they all broke out with the disease.

Mr. HAWLEY. That is, the farmer's cattle, do you mean?

Mr. SPANN. No; but he knew of it of his own personal knowledge.

Now, about Chicago, something was said about whether we agreed to pay the expenses of moving cattle out from Chicago and whether we did it of our own volition. We moved them because we were trying to save the cattle, and that was one of the means insisted on by them for the saving of the cattle. The cattle were infected from about the 2d or 3d of November until the 12th of December, when the last of them got well. We cured them all; they were in fine condition. We told the Government officers that we wanted to save those cattle, and that we would do anything they said; that we did not want them to be carriers of this disease.

Now, Dr. Melvin, who gets his data from Germany, I believe, says that in 1872, I think it was, some bull had the disease somewhere in Europe, and that seven or eight months afterwards cattle that had been in contact with the bull developed the disease. But that was over in a country where they have foot-and-mouth disease and everything else, and it can not have come from that bull.

They have never shown a case yet where cattle have been treated as ours have been treated that had the disease. From the 12th of December until the 9th of January we kept them there. We have this Hawthorne race track for them. And we said to the officials, "Gentlemen, we are ready to do anything further that you suggest. We think it is a good plan to move these cattle from the original source of infection." We were permitted by the Government to do that. We had not only to get permission of the Government, but we had to get permission of the State of Illinois; and we moved those cattle to Hawthorne under the supervision of the State veterinarian at Chicago. And this was the *modus operandi*:

We scraped their horns and hoofs, and led them into a long vat shaped somewhat like this table, filled with disinfectants over the fetlocks of the cattle—I do not know that all of you know what fetlocks are, but it means up above the ankles. And then we put men dressed in rubber clothes in those vats, and they took brushes and scrubbed those cattle all over their heads and horns, inside their mouths, and all over, including their tails; and then they led the cattle into a steaming hot room, where they were rubbed by other men similarly protected; and then they were put into those disinfected

cars and taken out to Hawthorne race track. They have been there ever since. They are in perfect condition. They have dropped 30 calves, and only some 75 per cent of the cattle lost them.

We notified the Government some time ago that the cattle were well and that we were ready for any further experiments. The suggestion was made by them that after these cattle were well, we introduce beef cattle, or common cattle, among them, and see if these cattle would infect those other cattle, which we agreed to. They did not say that they would pay the expenses or that we would pay; but as a matter of fact, we paid.

Now those Government veterinarians after saying to us, "This is the most infectious disease in the world; diseased cattle will carry the disease to such an extent that if there is one infected cow in a herd of 700 animals it will infect the whole herd"—after saying that, we asked them, "How much do you want?" They said, "400 head," although one cow would carry the disease. We argued with them and finally we got them to agree to take 50 head.

So we brought the 50 head of cattle in. These cattle stood in rows all along the building. We brought these cattle in; and I had 17 head among them; and they allowed me two head for those 17.

The next day I had them put in the same box with the common cattle and fed out of the same trough, and I took the saliva out of our cattle's mouths and put it into the mouths of these other cattle to try to give them the disease. And then we said to the Government men, "We will do anything further you want. We do not want these cattle if they will transmit the disease." And after that they are going to take the blood from our cattle and inject it into these others.

Mr. HAWLEY. How long have your cattle been with those others?

Mr. SPANN. About a week now. When those cattle were brought there we kept them separate from the others for a week or ten days.

Mr. HAWLEY. I would like to inquire about a statement you made a while ago. I understood you to say that on a certain date you were ousted from the possession of your cattle by the Government authorities?

Mr. SPANN. Yes.

Mr. HAWLEY. The owners?

Mr. SPANN. Yes.

Mr. HAWLEY. And your attendants?

Mr. SPANN. No; they kept those inside who were inside; those who were outside they would not let in.

Mr. HAWLEY. What time did they take possession of the cattle and what time did they return them?

Mr. SPANN. On the day they said that we could not have them and said they could not stay there; but they actually locked the barns on the 30th.

Mr. LESHER. They allowed you to remove them January 9?

Mr. SPANN. They removed them; the State of Illinois and the Government jointly took them; and we washed them and treated them and moved them to Hawthorn, and they are there now. When I went into their stables I took off my outer clothes and put rubber clothes on.

Mr. HAWLEY. How long were the owners ousted of the possession?

Mr. SPANN. Right up to this present time.

Mr. HAWLEY. I mean so that you could not go back and look at them?

Mr. SPANN. Up to the time Dr. Houston issued permission.

Mr. HAWLEY. Does that cover the period that the animals were sick?

Mr. SPANN. No; we were allowed to go in when they were sick, but we could not say a word about their handling; I could not treat a cow.

Mr. HAWLEY. You would go in just as a visitor, would you?

Mr. SPANN. I can not treat a cow for ringworm; I can not give it a dose of iodine.

Mr. ANDERSON. What do you understand to be the period of incubation?

Mr. MOSS. Mr. Chairman, I seriously object to the closing of this record at this time. This question is quite important; and these people who have appeared here ought to be able to bring in facts before the committee; and I object to the hearing being concluded until the Bureau of Animal Industry representatives come before this committee and we hear both sides of this question. I shall very seriously object to the closing of the record now; and I would like for them to appear if there is to be any washing of dirty linen.

Mr. LESHER. I would like to say that these gentlemen in carrying on these experiments have been performing a great service for the Government, and I think the Government owes them some money for their expenses and losses in showing that they can take care of and save these cattle without slaughtering them to eradicate the disease.

Mr. SPANN. That is the position we have taken. The veterinarians have been opposing us every day. It is worth what it costs. I do not favor quarantine and saving cattle on the farm, because it is impracticable. But we have these cattle all in one building; and it is an exceptional opportunity, which the Government ought to be able to grasp, to carry on the experiment; and we ought to have the protection of the Government so as to free us from this burden. It has been a heavy load for us. I myself have been compelled to borrow money, and sometimes have had to help out some of the other owners to carry the cattle along.

Mr. MOSS. I am sure everybody will sympathize with the misfortunes of yourself and associates.

Mr. SPANN. And I ask you if my statement is correct, do you not see that we deserve payment from the Government, which took our cattle and would not let us have them?

Mr. MOSS. I will not express any opinion; but I will ask you this question: Is it not a fact that thousands of people have lost money on account of foot-and-mouth disease, on account of indirect damages?

Mr. SPANN. I have also suffered indirect damages; but I do not ask pay for that. This is not a case of indirect damages; it is absolutely direct damages; because the Government took the cattle away from us. That is all we ask.

Mr. MOSS. Since you bring up the question, I may say that I know of a county in my district that has not had a single case of foot-and-mouth disease; and yet it has been under quarantine, part of the time

absolutely and part of the time for immediate slaughter. Now; there is a case not only of great inconvenience but of absolute loss.

Mr. SPANN. We are in the same fix right in our own county; and we are willing to stand that. But the gentlemen took those cattle away from us, and they ought to pay for them.

Mr. HELGESEN. Is it not the fact that if the Government had killed the cattle they would have paid for them, and it would have cost the Government more?

Mr. SPANN. Do you mean to say that the Government can take my cattle worth \$500 and pay me \$75 for them and kill them? Why did we not try to get out an injunction? They came to us on their knees at that time, and said, "Do not get out an injunction, because you would cause us trouble by doing that"; and they said, "All you will have to do is to go to Washington." And they can not kill our cattle without paying for them. Mr. Moss as a lawyer knows that.

Mr. Moss. If your information about the foot-and-mouth disease is not any more accurate than my information about my profession, I am sure it is not worth much. [Laughter.]

Mr. SPANN. My information about foot-and-mouth disease is worth more than the Government bulletins, because I have had the practical experience and know about it, and they do not. Those 43 Guernseys from the island of Guernsey were infected on the ship; they were brought here and quarantined. They all got well; they were sold at public auction, and went all over this country; and they did not carry a single disease to any cow; and they are the progenitors of the greatest cow in the country to-day.

Mr. Moss. I did not mean any offense. You spoke on one subject which you knew about, and then on another that you did not know anything about. [Laughter.]

Mr. SPANN. All right. Gentlemen, I thank you all.

Mr. HUDSON. Mr. Chairman, I should like a minute to tell the committee about an experience some one had at the Bureau of Animal Industry only a few weeks ago. A gentleman was attending there, and Dr. Melvin was present; and he called somebody up on the telephone and said, "Don't you think we had better send an inspector to look after that case of foot-and-mouth disease reported last Thursday?" This was Monday, and they had not sent an inspector there; and Dr. Melvin knew it. That shows the carelessness of that department.

#### STATEMENT OF MR. E. T. GILL, OF HADDONFIELD, N. J.

The CHAIRMAN. Mr. Gill, we will ask you to make your statement as brief as you can.

Mr. GILL. Yes, sir. Much that I might say has been said already; and what I will say will probably only indorse what has been said before. I am a member of the executive committee of the American Guernsey Cattle Club.

Mr. HAWLEY. Were you exhibiting at Chicago?

Mr. GILL. I was not exhibiting at Chicago; but I was there. I saw these shavings that were disinfected; and I also know that the Guernsey breeders in our association had no notification whatever of any foot-and-mouth disease in the stockyards or at Chicago.

I think it was on Thursday of the week of the exhibit that a rumor went around that they had foot-and-mouth disease in the stockyards; I can not tell where I heard it. But it was sufficiently impressive to cause me to decline an invitation to look at a lot of horses in the stockyards that were to be shipped to England; and when I went home I quarantined my own stables. Now, as to anything more regarding the stockyards—

Mr. HAWLEY (interposing). You quarantined your own stables where—in Maryland?

Mr. GILL. In New Jersey.

Mr. HAWLEY. In New Jersey?

Mr. GILL. Yes; because I am impressed with the danger of this disease, having known something of it in Europe.

Now I feel, as the gentleman who spoke this morning has so well expressed, that these men should be compensated for their cattle. They have performed a great experiment. Whether it will pan out all right I do not know. Personally, I am on the fence. I am "in the soup" myself and do not know what to do. I have over 100 head of cattle which are infected right now, so of course I am interested.

But whatever you do in the fight against the foot-and-mouth disease must be done quickly, and you must realize the great importance to every citizen of the United States of putting down this disease. If it is not eradicated in this country within six months the Lord help you. You—and by that I mean not the breeder, but you people who eat meat and you people who drink milk and eat butter—are the ones to whom this is a vital question. The cost of living will go up if this disease is not eradicated immediately, as is known in Europe. They can not eradicate the disease there; it has obtained too good a foothold. The expense in some of the European countries is as high as \$20—it ranges from \$7.50 to \$20 each year—on every animal in the country, simply to keep in subjection the foot-and-mouth disease. There is an expense which in this country to-day would be about \$1 a head. I do not know how many million cattle we have here.

Mr. HUDSON. About 60,000,000.

Mr. GILL. Then if this country to-day should spend \$60,000,000, which is \$1 a head for the cattle in the country, it would be as economical a proposition as has ever been undertaken by the Congress at Washington.

Now, the question of valuation does not seem to be understood by the general citizen. The value of the cow or steer is the meat; he thinks of that or the amount of milk the cow will produce as the basis of value. But that is not the only value of an animal. The great value of an animal—of a high-type, pure-bred animal—is derived from generations of the same characteristics, with the power to reproduce, the power of prepotency; that is what makes a cow valuable. When you go to Mr. Hudson or some other breeder and give him \$1,000 for a little bull calf, what is the value of that calf, and how much interest does it represent? Perhaps this is all known to you; but I simply want to impress upon you the facts, because I am "in the soup," and I want to say that the breeders of America pay the bill. I do not know that I personally will pay, because any laws that might hereafter be passed by the Government, or by our State, will probably be too late for me, because I expect to kill all my animals.

I suppose you all know now how dangerous and infectious this disease is as a quarantine proposition. I quarantined my stables. Suppose the Government should put a notice on every farm, every stable, in big letters, "Quarantined." I put three notices up on my place; and yet an official came right on my farm; and yet he had no authority. He entered the farm gate and passed the office and never stopped or looked. He put his hand on the door and entered the stable, and there was another notice—well, that is not exactly a matter for you; it only shows the great necessity of quarantine—and sometimes the most dangerous people that visit a stable are the officials who go around looking for trouble and inspecting—unless they are very careful men.

Now, I think that one of the most dangerous sources of infection of cattle of all breeds—and this means every cloven-footed animal; you will lose your goats and your sheep and your pigs; I have got pigs with it—is the fact that the beef cattle are allowed to be transported over the country for immediate slaughter. "Immediate slaughter" means very little as a matter of fact. I know of one instance in New Jersey where a carload of beef cattle were being shipped in the southern part of the State; and there was a fine Holstein bull in the car; and a farmer offered the shipper a little more for the bull than it was worth for beef, because it was such a fine bull; and the man sold it to the farmer—and I think that was our first experience of foot-and-mouth disease in New Jersey.

MR. HAWLEY. Do you mean that the bull had foot-and-mouth disease?

MR. GILL. He developed the disease. I know of another case where a cow and a heifer were going down a road. A bull came out of a stable alongside the road and went up to them; and the cows had not been condemned; no one knew that they had foot-and-mouth disease. And yet before long they had to destroy that entire herd. That shows how easy it is to convey the disease. I have had my men take every precaution, wearing rubber overshoes, and so on, and yet the cattle got it from them.

MR. MOSS. Those characteristics of the disease that you have just been mentioning, which I am sorry to say I believe to be true, as to the ease with which it is transmitted, go a very long way toward justifying the Government in maintaining a quarantine around infected centers, do they not?

MR. GILL. Oh, I believe in that.

MR. HUDSON. How about shipments of hay between various States all over the country?

MR. GILL. Yes, and feed bags.

MR. HUDSON. Anything.

MR. GILL. Those things are allowed to go backward and forward to and from the farmer; that is one of the ways the disease is transmitted.

MR. HELGESEN. But the same conditions which you have described would make it absolutely unjustifiable for the Government to quarantine against shipments of cattle out of a yard, where the yard is open so that the cattle can come in contact with everything that comes and goes, would they not?

MR. GILL. Yes; if the whole thing is not shut up the quarantine is no good. I will not have any more cattle until I feel that the Gov-



ernment is taking more precautions and putting more money into the fight. If you do not pay the breeders of pure-bred cattle in the same proportion as you pay the man with the common cows—the “57 varieties” of cows—you are not doing your duty. A man with a common cow gets \$50 when it is killed; a man with a pure-bred cow gets \$50, and in some of the States, as in my own, he gets \$75—for a cow worth thousands of dollars; and of course he is at a dead loss. You discourage the man who is breeding pure-bred animals and advance the interests of those owning inferior animals—not only cows but all cloven-foot animals. You discourage the breeder of pure-bred animals by paying him nothing, and yet you expect to condemn his cattle and to kill them, not for his own benefit alone but for the benefit of the State; and not for the breeders of the State alone but for the benefit of every citizen of the State. And that is what I want to see—the proper compensation paid to the breeders of pure-bred animals.

(Thereupon, at 12.35 p. m., the committee went into executive session, after which it adjourned until to-morrow, Friday, February 26, 1915, at 10 o'clock a. m.)

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COMMITTEE ON AGRICULTURE,  
HOUSE OF REPRESENTATIVES,  
*Friday, February 26, 1915.*

The committee met at 10 o'clock a. m., Hon. A. F. Lever (chairman) presiding.

The CHAIRMAN. The committee will come to order. Col. French, Mr. Moss desires to ask you a few more questions, if you will take the stand for a few moments.

**STATEMENT OF MR. G. WATSON FRENCH—Continued.**

Mr. Moss. Col. French, I want to ask you a few questions in order to clear up our own understanding about this matter. Now, there was a committee that came over to Washington representing the owners of the cattle, was there not, to make their complaint to Secretary Houston?

Mr. FRENCH. Yes, sir.

Mr. Moss. Were you a member of that committee?

Mr. FRENCH. Yes, sir; I was.

Mr. Moss. How many members were there of that committee?

Mr. FRENCH. There were six or eight members.

Mr. Moss. Was this a self-appointed committee, or did it come here with the consent of the owners of the cattle?

Mr. FRENCH. It came over with the consent of the owners' association, but whether all of the owners agreed to it or not I am unable to state.

Mr. Moss. So they were really representing the association at that time?

Mr. FRENCH. Yes, sir.

Mr. Moss. Did you then have a consultation with Secretary Houston?

Mr. FRENCH. Yes, sir.

Mr. Moss. Did you have a consultation with Dr. Melvin?

Mr. FRENCH. Yes, sir.

Mr. Moss. Now, was there any other person present when you consulted with Dr. Melvin?

Mr. FRENCH. Yes, sir.

Mr. Moss. Who else was there?

Mr. FRENCH. There were six or eight members of our committee, Dr. Mohler, and possibly some other veterinarians connected with the department.

Mr. Moss. Now, at this consultation you had with Dr. Melvin, Dr. Mohler being present, was there any proposal made or any discussion had as to the expense connected with the treatment of these cattle and who was to bear it?

Mr. FRENCH. Not that I can recall.

Mr. Moss. You do not recall that there was any statement made on behalf of your committee to the Government to the effect that if the Government would permit these cattle to be moved to a new location the owners would bear the expense of treating them?

Mr. FRENCH. Not that I recall; but I will say, however, that if the Government had insisted upon that we would have agreed to it. We were in a position where we would have been obliged to agree to anything that the Government insisted upon in order to save our cattle.

Mr. Moss. I was not particularly interested as to the conditions to which you would agree, but I am interested in knowing what understanding was reached at that time. Now, you have no recollection of having reached that understanding with the Government?

Mr. FRENCH. No, sir.

Mr. Moss. Now, this dairy show was for exhibition purposes?

Mr. FRENCH. Yes, sir.

Mr. Moss. Was there also the purpose of selling some of the cattle?

Mr. FRENCH. At all dairy shows the owners hope, in addition to securing premiums, that they can induce more or less sales.

Mr. Moss. There was to be a public sale connected with the show, was there not?

Mr. FRENCH. I believe there was, though I was not interested in that.

Mr. Moss. As a matter of fact, was there not a sale held?

Mr. FRENCH. There was.

Mr. Moss. What class of cattle was offered at that sale?

Mr. FRENCH. My recollection is that Jerseys were offered.

Mr. Moss. Do you know how many head were sold?

Mr. FRENCH. No, sir; I do not.

Mr. Moss. Do you know about the average price obtained?

Mr. FRENCH. No, sir; they were sent especially for sale and not for exhibition.

Mr. Moss. There was also to be a sale of Holstein cattle, was there not?

Mr. FRENCH. I think not; I was unaware of it.

Mr. Moss. You do not know whether there was to be a Holstein sale or not?

Mr. FRENCH. I do not.

Mr. McLAUGHLIN. You are a Holstein breeder, are you not?

Mr. FRENCH. Yes, sir.

Mr. MOSS. The only purpose I had was to get at the average price of the cattle sold. Now, there is one other question I want to ask: When was the show to have closed regularly?

Mr. FRENCH. I believe it was to have run from the 24th to the 30th, according to the advertisements, or it may have been to the 31st.

Mr. MOSS. Do you recollect on what date it was that the order for the detention of your cattle was issued?

Mr. FRENCH. I do not know when the order of detention was issued by the department, but we were told on Thursday, the 29th of October, that we could not remove our cattle.

Mr. MOSS. On the 29th of October?

Mr. FRENCH. Yes, sir.

Mr. MOSS. Did you understand that your cattle were in quarantine or that they were being held there for observation purposes after the 29th of October?

Mr. FRENCH. We knew that the cattle were not in our possession and that they had been seized. They said that they were being held for observation, but whether that was true or not we had no means of knowing.

Mr. MOSS. The statement I understood to be made here was that on the 28th, 29th, and 30th, those being the three days you have referred to, feeders were shipped out of the stockyards, when your cattle could not go?

Mr. FRENCH. The 29th, 30th, 31st, 2d, and 3d.

Mr. MOSS. Do I understand you to say that feeders were shipped out of the Chicago stockyards on the 2d and 3d days of November?

Mr. FRENCH. Yes, sir.

Mr. MOSS. That is what I would like to know. Do you know that of your own personal knowledge?

Mr. FRENCH. That was the statement of some of the dairy show owners who knew it of their own personal knowledge.

Mr. MOSS. But you yourself did not investigate to know whether it was true or not?

Mr. FRENCH. Yes, sir; that is true.

Mr. MOSS. And you are giving us the best of your information?

Mr. FRENCH. Yes, sir.

The CHAIRMAN. Do you recollect the names of the parties who gave you that information?

Mr. FRENCH. No, sir; but I can procure the names, and I think I can get affidavits to that here by Monday certainly.

UNION STOCK YARDS, ILL., *February 27, 1915.*

Col. G. WATSON FRENCH.

*New Willard Hotel, Washington, D. C.:*

Kiplinger, Rushville, Ind., and Connell, Fayette, Ohio, made the statement regarding movement of feeders from Chicago to their country. Have wired them to send you affidavits. Many shipments were rushed out 28th, 29th, 30th October to other yards for distribution into country from such yards, but find quarantine was on here 31st. Have wired Amos to send telegram.

W. E. SKINNER.

Mr. SPANN. You knew a gentleman from Ohio, a Holstein breeder there—

Mr. FRENCH (interposing). I do not recollect the names at this moment, and I do not want to clutter the record with any in-

correct statements. I have no desire to mislead you gentlemen in any way.

Mr. Moss. I would like to ask Mr. French and this other gentleman to substantiate with further evidence the statement that after the 31st of October any feeders were shipped out of the Chicago yards. I have here an official order issued by the Department of Agriculture that was effective on and after October 31, 1914, which prohibited such a shipment. Here is an official order, which I shall place in the record at this point, made effective on and after October 31, 1914.

(The order referred to is as follows:)

[B. A. I. Order 226. United States Department of Agriculture, Bureau of Animal Industry.]

**B. A. I. ORDER 226—TO PREVENT THE SPREAD OF FOOT-AND-MOUTH DISEASE IN CATTLE, SHEEP, OTHER RUMINANTS, AND SWINE. EFFECTIVE ON AND AFTER OCTOBER 31, 1914.**

UNITED STATES DEPARTMENT OF AGRICULTURE,  
OFFICE OF THE SECRETARY.

The fact has been determined by the Secretary of Agriculture and notice is hereby given that the virus of a contagious, communicable disease known as foot-and-mouth disease exists in the Union Stock Yards, in the city of Chicago, State of Illinois.

Now, therefore, I, C. F. Marvin, Acting Secretary of Agriculture, under authority conferred by section 2 of the act of Congress approved February 2, 1903 (32 Stat., 791), do hereby order that no cattle, sheep, other ruminants, or swine shall be transported, driven on foot, or otherwise moved in interstate or foreign commerce from the area hereinbefore mentioned except for immediate slaughter in cars placarded "For immediate slaughter," and under billing so marked, and only when accompanied by a permit issued by an inspector of the Bureau of Animal Industry, and no hay, straw, or similar fodder, or manure or litter shall be transported or otherwise moved in interstate or foreign commerce from the area hereinbefore mentioned unless the same be disinfected prior to shipment under the supervision of an inspector of the Bureau of Animal Industry, and accompanied by a permit from such inspector.

No railroad cars within the stockyards hereinbefore mentioned which have carried live stock shall be moved in interstate or foreign commerce until the said cars have been cleaned and disinfected with a 5 per cent solution of carbolic acid or a 3 per cent solution of cresol compound, U. S. P.

When shipments by rail of cattle, sheep, or other ruminants, and swine, for immediate slaughter, are made from points in the stockyards hereinbefore mentioned, the cars containing them shall be sealed under the supervision of an employee of the Bureau of Animal Industry before the said cars shall be allowed to leave the stockyards hereinbefore mentioned.

When shipments by rail of cattle, sheep, and other ruminants, and swine for stocking, feeding, or dairy purposes, are made from and to points not included in the stockyards hereinbefore mentioned, the said shipments shall not be unloaded within the said stockyards except through cleaned and disinfected docks and alleyways into cleaned and disinfected pens, under the supervision of an employee of the Bureau of Animal Industry. When reloaded, the stock shall be loaded into cleaned and disinfected cars, and the cars shall be sealed under the supervision of an employee of the Bureau of Animal Industry.

No shipments shall be unloaded en route or at destination outside the stockyards, hereinbefore mentioned, except into reserved pens, which have been designated and approved for that purpose by the Chief of the Bureau of Animal Industry. When such shipments are unloaded en route, as hereinbefore provided, the cars shall, after reloading, be again sealed under the supervision of an employee of the Bureau of Animal Industry, it being the purpose and intent of this provision that cars containing such shipments shall remain sealed until the animals arrive at the place of destination.

This order, for the purpose of identification, is designated as B. A. I. Order 226, and will be effective on and after October 31, 1914.

This order is subject to amendment or revision on statutory notice.

Done at Washington this 31st day of October, 1914.

Witness my hand and the seal of the Department of Agriculture.

[SEAL.]

C. F. MARVIN,  
*Acting Secretary of Agriculture.*

Now, if these gentlemen have any evidence that this order was violated or that the Government permitted any violation of it, I feel that they ought to be called upon to produce the information. That is all I want to ask.

Mr. HELGESEN. Col. French, Mr. Moss asked you about the sale of some cattle made at the time of this show, evidently for the purpose of establishing the value of the cattle that were not sold. Now, in your opinion, do you think that the price paid for the cattle sold was any criterion by which to judge the value of the cattle not sold?

Mr. FRENCH. Absolutely none. The sales that were held there were of what is known technically in the trade as cull sales. A certain number of cheaper animals are put up at those sales to be knocked down to the highest bidder. No first-class sale is ever held at a dairy show.

Mr. Moss. I had another purpose in view besides determining the value of the cattle. If the cattle were there to be sold at public sale, then it meant the dispersal of the cattle sold to all parts of the United States; it would show that they were to be widely scattered and would not simply go back to the owners of the animals at the dairy show, and therefore it meant that the cattle would be sent over a great many sections of the country.

Mr. HELGESEN. If that is the object of it, then the herds that you did not offer for sale were not to be shipped except back to the places from which they came?

Mr. FRENCH. Yes, sir; that is true.

Mr. HELGESEN. And when they refused to allow you to take these cattle out it was not for the purpose of preventing them from being scattered all over the country, but for the purpose of preventing them from going back to the places from which they came?

Mr. Moss. Of course these cattle being offered for sale were subject to inspection by anybody who wanted to see them?

Mr. FRENCH. Yes, sir.

Mr. Moss. And, as a matter of fact, the whole herd of exhibition cattle were being constantly inspected by the public passing back and forth through them?

Mr. FRENCH. Yes, sir.

Mr. Moss. And to that extent they were exposed as much as cattle could be exposed to the visitors seeing them?

Mr. FRENCH. Yes, sir.

Mr. McLAUGHLIN. Do you know whether any cattle sold in the way you speak of were removed from the building and shipped to purchasers?

Mr. FRENCH. None that I know of.

Mr. HELGESEN. Were the sales held at the same place as the show?

Mr. FRENCH. Yes, sir.

The CHAIRMAN. Are there any other questions?

Mr. SPANN. May I ask Mr. Moss a question? Mr. Moss asked Mr. French whether after these cattle were sold they would be scattered all over the country, or he stated that was the purpose of his question, and then he asked us to give evidence in support of our statements about the shipment of cattle from the stockyards. Now, I would like to ask him if he has any evidence that, if these cattle had been shipped out, they would have been more widely distributed than the cattle on exhibition if they had been allowed to go home?

Mr. Moss. I object to being placed in the attitude of taking sides on this proposition.

The CHAIRMAN. You see, we are sitting as the jury.

Mr. SPANN. I ask to be excused for my ignorance of your procedure.

The CHAIRMAN. Are there any further questions for Col. French?

Mr. COOPER. Col. French, when was it that you first knew about the scattering of those shavings that had been disinfected?

Mr. FRENCH. When I arrived at the show.

Mr. COOPER. When did you arrive?

Mr. FRENCH. On the 25th or 26th of October. I then found the shavings placed there and asked the reason for it, and I was then informed that owing to the foot-and-mouth disease having been discovered in Michigan and Indiana it was deemed prudent to take all precautions to prevent any possibility, though highly improbable, of the spread of the foot-and-mouth disease.

Mr. COOPER. When were you informed that those disinfected shavings had been put there?

Mr. FRENCH. Before the show opened.

Mr. COOPER. By whom or by whose orders were they placed there? Did you learn, or have you been informed?

Mr. FRENCH. I was told that it was upon the orders of Dr. Bennett. I have no personal knowledge of it.

Mr. McLAUGHLIN. Was it not stated here yesterday that those disinfected shavings were put there the second day of the show? I had that in mind.

Mr. SPANN. I find that in my evidence of yesterday I stated they were put there the day after the show, but I have corrected that, by stating that I saw them there the day the show opened, when I came there.

Mr. McLAUGHLIN. They would naturally put shavings there from the very beginning, but when was the disinfectant put on the shavings?

Mr. SPANN. The disinfectant was there the first day of the show, when I arrived. Mr. Cooper asked by whose orders that was done. Mr. Skinner said that it was done by the order of Dr. Bennett.

Mr. COOPER. Would you have permitted your cattle to go to Chicago at all if you had known that there were disinfected shavings to be put on those premises before that show opened, or on the first day of the show?

Mr. FRENCH. I would not.

Mr. COOPER. Or if you had known that there had been a case of foot-and-mouth disease in Michigan or elsewhere in an adjoining State and if you had known that the disease was within a hundred miles or so of Chicago?

Mr. FRENCH. I think not.

Mr. Moss. On that point, let me ask you this: Was it a matter of public knowledge that the foot-and-mouth disease did exist at the time this show was on in Michigan?

Mr. FRENCH. There were rumors of it.

Mr. Moss. Had there been a quarantine established against certain territory in Michigan before this show opened?

Mr. FRENCH. I think possibly there had been.

Mr. Moss. As a matter of fact, the Department of Agriculture had recognized the existence of foot-and-mouth disease and had quaran-

tined two counties in Michigan on account of it before this show opened?

Mr. FRENCH. I am not sure of the dates, but that is very likely to be true, though I was unaware of that fact.

Mr. HELGESEN. The statement made yesterday was—although I do not know whether it is correct—that the Federal Government only quarantined States and that the States quarantined counties. Now, if that is true, if there had been any quarantine by the Federal Government it would have been of the State of Michigan, and, if that is a correct statement, then certainly they would not have permitted shipments from Michigan.

Mr. MOSS. That whole matter will come out in the record later, but I think you will find that two counties were quarantined in Michigan and two counties in Indiana simultaneously. Certainly that was done by the State authorities of Michigan and the State authorities of Indiana, but they were acting upon information from the Department of Agriculture after they had diagnosed it and recognized it as foot-and-mouth disease. The point I was making was this, that this action by the public authorities, quarantining those counties, had taken place before these cattle were assembled in Chicago.

Mr. McLAUGHLIN. Do you know whether or not there were any cattle from Michigan exhibited at that show?

Mr. FRENCH. Yes, sir; there were.

Mr. McLAUGHLIN. Do you know from what parts of Michigan they were?

Mr. FRENCH. I do not.

Mr. McLAUGHLIN. Do you know the names of the exhibitors?

Mr. FRENCH. I do not; but I can supply all of that information for you.

Mr. McLAUGHLIN. There are said to be some fine herds of Holstein cattle at the insane asylum at Pontiac. Do you know whether any of those animals were there?

Mr. FRENCH. I can not state positively, but I will ascertain. I will furnish for the committee a list of the exhibitors from Michigan or from any other State that you desire.

Mr. HAWLEY. I suppose they have a record or list of all the exhibitors of cattle and a record of the kind of cattle exhibited?

The CHAIRMAN. It is understood, I presume, that Col. French will furnish affidavits of the parties who have personal information as to those feeders having been shipped out of the Union Stock Yards on the dates he has mentioned?

Mr. FRENCH. Yes, sir.

Mr. McLAUGHLIN. It may be interesting to the committee to know that Niles, Mich., where this outbreak occurred, is in the extreme southwest corner of the State of Michigan.

Mr. HAWLEY. How far is it from Chicago?

Mr. McLAUGHLIN. It is within 100 miles. It is down almost on the point where Indiana, Michigan, and Lake Michigan come together.

Dr. MOHLER. It is 82 miles from Chicago.

The CHAIRMAN. I did not catch your answer to the question, asked you a moment ago, as to whether you had any information of the fact that a quarantine had been thrown around certain counties in Michigan and Indiana when you shipped your cattle?

Mr. FRENCH. No, sir; I did not have that information; but I think that Mr. Moss's statement that such a quarantine had been established is correct. I had no personal knowledge of it at the time, or I would not have shipped my cattle there.

Mr. COOPER. I would like to ask Col. French one more question. When did you first hear that the disease which had broken out at Niles, Mich., had been declared to be stomatitis by the authorities of the Agricultural Department?

Mr. FRENCH. Before the dairy show at Chicago.

Mr. MOSS. What authority in the Department of Agriculture pronounced this to be acute stomatitis?

Mr. FRENCH. I do not know.

Mr. HELGESEN. I suggest that the clerk of the committee be requested to furnish Col. French with a list of the questions or of the information you want him to furnish.

Mr. FRENCH. If you will give me a transcript of my testimony within a reasonable time during the day, I can then get busy and secure the information you wish.

Mr. MOSS. With regard to the alleged shipment of feeders from the Union Stock Yards, I suggest that the chairman of the committee be instructed to wire the stockyards authorities, who have the records, asking whether or not, as a matter of fact, such cattle were shipped on those dates. I suggest that the committee might wire direct to the authorities of the stockyards and have their statement submitted on their authority.

(The telegrams follow:)

WASHINGTON, D. C., February 26, 1915.

A. G. LEONARD.

*Manager Union Stock Yards, Chicago, Ill.:*

By direction of the Committee on Agriculture of the House of Representatives. I desire to know if any cattle, sheep, swine, or other ruminants were shipped, other than for immediate slaughter, out of the Union Stock Yards of Chicago, Ill., or interstate or foreign commerce on October 31, November 1, or November 2, 1914; and if so, what classes of animals, and to whom, and to what points. Wire answer; collect.

A. F. LEVER.

*Chairman Committee on Agriculture.*

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UNION STOCK YARDS.

*Chicago, Ill., February 26, 1915.*

A. F. LEVER,

*Washington, D. C.:*

No cattle, sheep, swine, or other ruminants were shipped other than for immediate slaughter out of the Union Stock Yards of Chicago, Ill., for interstate or foreign commerce on October 31, November 1, or November 2, 1914.

ARTHUR G. LEONARD.

Mr. HELGESEN. Col. French, were you refused permission to remove your cattle prior to the 31st of October?

Mr. FRENCH. Yes, sir; we were refused permission on the 29th. From the questions of Mr. Moss, I suppose you want us to say whether the Government has been wholly bad or 50 per cent bad. Now, I want to state that I have attempted to make the criticism that I have made of the Bureau of Animal Industry apply to its enforcement of the regulations in the city of Chicago.

Mr. SPANN. I would like to have put on record there, right after that statement, as a positive statement from me, and under oath if



you wish me to make it that way, that we were refused the privilege of shipping our cattle on Thursday, the 29th of October, when I made the request. I also telegraphed to Dr. Melvin on the 29th of October or the 30th, the days on which they shipped those cattle from the Chicago stockyards, protesting against the holding of our cattle there subject to infection, and asking the privilege of having them returned to Kentucky in sealed cars, under the supervision of the State commissioner of agriculture, the cattle to be held at the fair grounds at Louisville, Ky., as long as they might say, for observation, and that request was refused.

Mr. COOPER. On what day did you hear that the Department of Agriculture, through Dr. Melvin, had telegraphed to the show not to permit the animals to leave? Was it before or after Thursday, or about that time?

Mr. FRENCH. It was, as I remember, on Friday that I heard the information. The telegram may have been sent on Thursday.

Mr. COOPER. At that time had there been, to your knowledge, any outbreak of the disease among the cattle on exhibition?

Mr. FRENCH. There had been none.

Mr. COOPER. Do you know, then, where the Agricultural Department, or its officials in Washington, secured the information or received the intimations on which they based that order?

Mr. FRENCH. I do not.

Mr. COOPER. Was it a telegram?

Mr. FRENCH. I do not know.

Mr. McLAUGHLIN. When did the first case of foot-and-mouth disease occur among the cattle exhibited at Chicago?

Mr. FRENCH. In the early part of the next week after October 29.

Mr. COOPER. So this telegram must have been based upon information concerning the disease outside of the dairy show?

Mr. FRENCH. It would seem so.

Mr. HELGESEN. Is the treatment given the cattle in this barn at Chicago of such a difficult character that it could not have been administered at home?

Mr. FRENCH. No, sir; but we had peculiar surroundings which favored us in carrying on an almost perfect quarantine, and such conditions would not prevail in one out of a thousand cases.

Mr. ANDERSON. Are we to understand from that statement that you do not agree with Mr. Spann that you should have been permitted to ship the cattle out?

Mr. FRENCH. They did not have the foot-and-mouth disease when we wished to ship them out, and there was no occasion for remarkable sanitary conditions then.

Mr. HAUGEN. Had they been exposed?

Mr. FRENCH. Not that we knew of.

Mr. ANDERSON. How soon does the disease occur after exposure?

Mr. FRENCH. The disease breaks out in from one to five days, usually.

Dr. MOHLER. That is a very short time. We have had it to go as high as 22 days.

Mr. FRENCH. Then it breaks out in from one to a hundred days. Say from 1 to 100 days, and you can draw your own conclusions. It usually shows, however, in a very few days. There had been no case of that disease among them on the 29th day of October, and whether

they had contracted it two or three weeks before they came to Chicago or whether they contracted it there after the 29th of October, you gentlemen must judge for yourselves.

Mr. ANDERSON. I do not reconcile your position with that of Mr. Spann. As I understand him, he objects because the Government did not permit you to ship your cattle out of Chicago, while you are saying that they ought to have been kept in Chicago because you had an ideal quarantine place there.

Mr. FRENCH. The gentleman did not understand my answer to his question.

Mr. ANDERSON. My reason for asking the question—

Mr. FRENCH (interposing). We had at Chicago peculiarly fortunate sanitary conditions—I said almost perfect conditions. If my animals had gone home, they would have had perfect sanitary conditions, and I presume these other breeders would have had the same; but remember there are very few farms in America—not one in one thousand, if you please—that are kept up as these breeders keep up their establishments.

Mr. ANDERSON. Then, I understood you to say that so far as these particular cattle that were at the show were concerned, it would have been perfectly proper to have permitted them to be shipped to the places from which they came?

Mr. FRENCH. Yes, sir.

Mr. MOSS. That is just an expression of opinion as to the policy.

Mr. HAUGEN. Your contention is that inasmuch as the cattle were retained there at extra expense, you should be reimbursed the expense you incurred by reason of their retention?

Mr. FRENCH. This is my claim exactly. I claim that the Government kept our cattle there, and whether they had the foot-and-mouth disease before the 29th of October or contracted it afterwards it is impossible to prove.

Mr. HAUGEN. And the Government has carried on the experiment—

Mr. ANDERSON (interposing). I did not catch your statement.

Mr. FRENCH. Whether the animals had the infection of foot-and-mouth disease before the 29th of October or not it is impossible to definitely prove. Our contention is that they contracted that disease either during the exhibition or after the 29th of October, and our contention can be proven by the fact that none of those homes from which the herds came have ever had foot-and-mouth disease. If they had had the foot-and-mouth disease before they left home, they would have left traces of it back home after that time.

Mr. REILLY. It was a wise precaution on the part of the Government to keep the cattle there.

Mr. FRENCH. That I am not now questioning at all; I think it was wise.

Mr. REILLY. Even after the 29th of October?

Mr. FRENCH. I think that in view of the information they had they were absolutely justified in depriving us of our cattle.

Mr. REILLY. Then, your only complaint is that they did not give general notice to the breeders before the fair opened that there was foot-and-mouth disease in certain sections of the country?

Mr. FRENCH. Yes, sir.

Mr. REILLY. That is your sole complaint

Mr. FRENCH. That is my contention.

Mr. HAUGEN. But besides you have a claim against the Government?

Mr. REILLY. That is the ground of the complaint.

Mr. HAUGEN. The grounds are that the cattle were retained there at extra expense and that he could have kept the cattle at home at less expense.

Mr. FRENCH. We have two grounds on which we claim compensation: The first is that the Government took our cattle and we are entitled to compensation for that without giving our reasons why we are entitled to the compensation, and the next ground is that on the broad equities of the case we are entitled to compensation at all times——

Mr. REILLY (interposing). You are not any more entitled to compensation than those who stayed at home are entitled to compensation?

Mr. FRENCH. No, sir.

Mr. REILLY. Unless the injury that you received resulted from the failure of the Government to give you proper notice of the existence of foot-and-mouth disease?

Mr. FRENCH. I hold that the Government took our cattle and kept them, and that we are entitled to compensation, no matter for what reason they took them.

Mr. LESHER. If you had allowed the Government to kill your cattle, or if you people had submitted to that——

Mr. FRENCH (interposing). We were willing for them to take our cattle if they would pay the appraised price.

Mr. LESHER. If you people had submitted, they would have taken your cattle and killed them?

Mr. FRENCH. If they could have taken them for \$50 per head, they would have killed them gladly. That is what they wished to do.

Mr. McLAUGHLIN. Before you leave that matter, I want to ask you a question: I believe you stated that there has been no case of foot-and-mouth disease on the farm of any exhibitor at the show. I may have misunderstood the testimony of the gentleman from New Jersey, but it seems to me that he said that since the dairy show his cattle in New Jersey have been infected.

Mr. FRENCH. He was not an exhibitor at the dairy show.

Mr. MOSS. You were expressing the opinion that the exhibitors ought to have had a warning from the Government concerning the existence of foot-and-mouth disease. Now, if they had at that time knowledge of the existence of foot-and-mouth disease in four counties, and if they knew that those four counties were under quarantine, and if they had no knowledge of the existence of foot-and-mouth disease anywhere else in the United States, then do you think they were called upon to notify each individual exhibitor in the United States of that condition?

Mr. FRENCH. It was unnecessary to notify each exhibitor. If they had notified the general manager of the dairy show he would have notified the exhibitors.

Mr. MOSS. That is not an answer to my question. My question was whether the Government took due precautions or not. Now, if the Government had knowledge of the fact that the only territory that was tainted with foot-and-mouth disease was under quarantine,

then did they not go as far as prudence dictated that they should go at that time?

Mr. FRENCH. In answer I would say that if we had the same conditions existing to-day, the Government would not allow the dairy show—

Mr. MOSS (interposing). That would have been true only because of the fact that foot-and-mouth disease had been very much more widely spread than anybody had knowledge of at that time?

Mr. FRENCH. Yes, sir.

Mr. MOSS. Therefore, it comes back to the proposition that hindsight is better than foresight. My question relates to the criticism of the Department of Agriculture, and the question is did they do all that they should have done with the knowledge they had at that time?

Mr. FRENCH. My criticism was not of the Department of Agriculture, but of the management of the Department of Agriculture at Chicago.

Mr. COOPER. If the Department of Agriculture knew of the outbreak of foot-and-mouth disease and knew of its exceedingly virulent and contagious character, ought not they to have done something besides merely permitting the counties to quarantine?

Mr. FRENCH. It seems to me that we are getting away from the question at issue, which is whether we are entitled to reimbursement for the moneys which we have expended, and, unless there is something that is really pertinent that these members wish to ask me, if the chairman will excuse me I will thank him very much.

Mr. LEE. How much was expended?

Mr. FRENCH. About \$150 per animal will have been expended by the end of this month.

Mr. HAUGEN. If the department had paid the dairy value of the cattle, it would have amounted to—

Mr. FRENCH (interposing). About \$250 per animal.

Mr. HAUGEN. So there is a real saving of \$100 per head to the Government?

Mr. FRENCH. Yes, sir; at the present time.

Mr. SPANN. Mr. Chairman, I take it that Mr. Moss is trying to get at the real facts and to get a fair statement of things. He asked whether, if the Government had information of the foot-and-mouth disease in one or two places and quarantine had been established there, they were taking fair precautions or proper precautions in this matter. Now, in regard to that I will state that it is not the precaution that they usually take. I said in my testimony yesterday that I imported cattle from the Island of Jersey, and if there is an outbreak of foot-and-mouth disease in any part of England or Scotland, they quarantine against the whole United Kingdom for 3 months or 90 days, and will not allow us to bring any cattle from there. Now, if they had taken the same precautions and prevented cattle from coming to Chicago, we would not have been there and would not have had this expense.

Mr. MOSS. How many times has foot-and-mouth disease broken out in the United States?

Mr. SPANN. I would say about five times.

Mr. MOSS. What was the difference in their treatment of the first outbreak from their treatment of the last outbreak in the early stages?

Mr. SPANN. I can not tell you.

Mr. MOSS. The first outbreaks were handled successfully by the Department of Agriculture.

Mr. SPANN. Yes, sir.

Mr. MOSS. The disease was stamped out successfully?

Mr. SPANN. You asked me what precautions were taken then other than those taken in this last outbreak, and I will say this, that they properly diagnosed the disease in all the other outbreaks except this one. I am not questioning the mistakes of a single individual—

Mr. MOSS (interposing). The point is that we know that the Department of Agriculture correctly diagnosed it as foot-and-mouth disease and that four counties were quarantined. Now, the point I want to get at is this: In these past outbreaks what precautions did they take for the protection of the public in addition to those they took this last time after they diagnosed this as foot-and-mouth disease?

Mr. SPANN. When individuals make mistakes, they pay for them.

Mr. MOSS. I would prefer that you answer the question I put. What additional precautions did they take in past outbreaks after the disease had been correctly diagnosed as foot-and-mouth disease to those taken in this last outbreak?

Mr. SPANN. I did not get mixed up in any of the past outbreaks, and can not tell you.

**STATEMENT OF MR. C. M. WINSLOW, SECRETARY OF THE  
AYRESHIRE BREEDERS' ASSOCIATION, BRANDON, VT.**

The CHAIRMAN. Mr. Winslow, as briefly as you can I wish you would give the committee such information as you have about the matter now under consideration.

Mr. WINSLOW. I have very little information, Mr. Chairman; I have no documentary information; but I was at the National Dairy Show, all through; and I received a telegram from Mr. Skinner last Tuesday telling me to send our committee here to this hearing, because it was very important. I could not get in touch with the three members on this committee, Mr. French, Mr. Valentine, and Mr. Chisholm, and I was obliged to put in an appearance here simply to represent the association.

At the National Dairy Show I heard of matters, but I knew nothing; I have no personal information on any of these points.

After I returned home I received a call asking me to get busy to see if they would delay the killing of the cattle when they were going to kill all the cattle immediately, and I wired Secretary Houston and received a letter from him saying that they should delay; and that is really about all I have to say. I simply wish to represent the association here.

Mr. McLAUGHLIN. Were you an exhibitor at the National Dairy Show?

Mr. WINSLOW. I was not an exhibitor. I had a booth at the National Dairy Show for the Ayrshire Breeders' Association, and was simply present as a visitor.

Mr. McLAUGHLIN. What, in your judgment, was the average value of the Ayrshire animals exhibited there?

Mr. WINSLOW. Why, the average, I should say, was somewhere from \$400 to \$500 a head; that is, judging from the prices that we

get. Do you mean the animals in the Ayrshire Association, or the whole number of animals?

Mr. McLAUGHLIN. The Ayrshire exhibit, I mean.

Mr. WINSLOW. Yes. It was from \$400 to \$500 a head.

Mr. McLAUGHLIN. How many Ayrshire animals were exhibited at that show?

Mr. WINSLOW. There were three herds; I do not know; I can give you documentary evidence of it if you would like, but I have not it here with me. There were three large herds.

Mr. HAUGEN. Can you give an estimate of the value of all the cattle exhibited?

Mr. WINSLOW. No; I can not. I would not like to give an estimate on the other breeds.

Mr. MOSS. Did you attend a public sale of Jersey cattle held in connection with that show?

Mr. WINSLOW. No; from what I heard I did not think it worth attending.

Mr. MOSS. Can you give the committee any information as to the average value of the cattle that were sold at that sale?

Mr. WINSLOW. No; I can not.

The CHAIRMAN. We are much obliged to you for your statement, Mr. Winslow.

#### **STATEMENT OF DR. JOHN R. MOHLER, BUREAU OF ANIMAL INDUSTRY, DEPARTMENT OF AGRICULTURE.**

The CHAIRMAN. Dr. Mohler, will you please state for the record your name and the title of the office you hold?

Dr. MOHLER. My name is John R. Mohler, and I am Assistant Chief of the Bureau of Animal Industry.

Mr. Chairman, this subject of foot-and-mouth disease is such a comprehensive one that I would like to begin, in connection with the point raised by Mr. Spann, by comparing the origin of the outbreak of 1902 with the outbreak of 1908 and the present outbreak of 1914, in order to make a correct statement of the facts.

The 1902 outbreak first appeared in the month of August, around Chelsea, Mass. It was not uncovered until about the 13th of November. The outbreak of 1908—

Mr. HAWLEY (interposing). Do you mean that in the case of that first outbreak you were uncertain as to the character of the outbreak—

Dr. MOHLER. Until the 13th of November.

Mr. HAWLEY. And you did not determine the character of the disease until then?

Dr. MOHLER. It was not brought to the attention of the department, or any official, until November.

Mr. HAUGEN. That was about three months?

Dr. MOHLER. Yes; about three months. In the 1908 outbreak, the first cases occurred in the fore part of September, and they were not brought to the attention of the officials, or the Department of Agriculture until November also.

This present outbreak originated in Berrien County, Mich., in August, and was diagnosed by the Department of Agriculture on the 15th of October, a full month in advance of the diagnosis of the out-

breaks of 1902 and 1908. Now, we do not know a thing about the origin of this present outbreak.

Mr. HAWLEY. It was diagnosed on October 15 as what?

Dr. MOHLER. As foot-and-mouth disease.

Mr. HELGESEN. Had it been called to your attention prior to that time, before it was diagnosed as foot-and-mouth disease?

Dr. MOHLER. The disease occurred in August in Berrien County, Mich., and two local practitioners were asked by the owners of the infected cattle to treat these animals. The disease spread among the individuals in the herds, and the practitioners requested the State veterinarian of Michigan to come down to Berrien County to make an examination of the infected animals.

Mr. McLAUGHLIN. Do you know when that was?

Dr. MOHLER. That was the latter part of August. Then the State veterinarian went from Berrien County direct to Detroit, Mich., where we have a local office, and requested aid from one of our assistant inspectors, Dr. Fess.

Dr. Fess went out with him on the 2d of September, and wired to Washington on the 3d of September to the effect that there were no indications of apthous fever, which is the scientific name for foot-and-mouth disease, but characteristic lesions of necrotic stomatitis were present.

From that time until the 10th of October we heard nothing further about the disease in Michigan.

Mr. HAUGEN. To what extent did it spread in that period?

Dr. MOHLER. Very slightly. The disease was of very mild type, the period of incubation was much longer than it is at the present time, and very few herds were involved.

The first inspection made by our inspector at Detroit showed only two herds infected.

That was, as I said, the 3d of September. The next time it was brought to the attention of the department was through the State veterinarian of Michigan when he again visited Detroit, and at that time he took the inspector in charge of the Detroit office, Dr. Schaffter, up to Berrian County with him.

Dr. Schaffter reported in a five or six page letter, dated October 7, describing certain reasons why this disease could be foot-and-mouth disease, and also describing certain reasons why it could not be foot-and-mouth disease.

Mr. HAWLEY. When did you receive that letter?

Dr. MOHLER. We received that letter on the afternoon of October 10, and we immediately sent a man on the first train to Niles, Mich., by way of Buffalo, N. Y.

Mr. ANDERSON. Is it true that the symptoms of necrotic stomatitis and those of foot-and-mouth disease are very much alike?

Dr. MOHLER. They are very similar in the later stages of foot-and-mouth disease. In fact, the organism that produces this necrotic stomatitis is usually found in old lesions of foot-and-mouth disease, and that is one of the reasons that he diagnosed it as he did, because the odor of the necrosis bacillus was present.

Mr. HAUGEN. Is it difficult to detect foot-and-mouth disease?

Dr. MOHLER. Not in the earlier stages. There is only one particular lesion which is peculiar to foot-and-mouth disease, and that is the blister which may occur in the mouth and about the hoofs as

in no other disease. After the blisters break, other disease germs enter and mask the picture.

Mr. ANDERSON. The reason I asked the question is this: If it is true that the symptoms of the two diseases are very much alike, it seems rather strange to me that the department did not detect the existence of foot-and-mouth disease and take greater care in determining it definitely than it did take.

Dr. MOHLER. My only answer to that would be that the man who went out to examine the cattle had been through the experience of the outbreak of 1908, which also occurred in Michigan, and we did not have the slightest idea of any foot-and-mouth infection being within 3,000 miles of here. In fact, the nearest case of foot-and-mouth disease that we knew of was in England, and we were not anticipating that every report of necrotic stomatitis might be foot-and-mouth disease.

Mr. ANDERSON. Let me ask you this question: Is necrotic stomatitis a very common disease?

Dr. MOHLER. Necrotic stomatitis is very common in that particular section of Indiana and Michigan, and also in certain other localities, such as Colorado.

The CHAIRMAN. On the 3d of September your man first came in contact with these diseased herds, did he?

Dr. MOHLER. Yes, sir; there were only two at that time.

The CHAIRMAN. There were only two at that time, and he was not certain at that time that it was necrotic stomatitis?

Dr. MOHLER. He was positive it was not foot-and-mouth disease and wired that the symptoms were characteristic of necrotic stomatitis.

The CHAIRMAN. In view of what has happened, is it your judgment that the department exercised a proper precaution in failing to quarantine those herds on the 3d of September?

Dr. MOHLER. I think that we had nothing further to go on. The State veterinarian was also a man who had been through the 1908 outbreak in Michigan at that time as an official of the Parke, Davis Chemical Co. That particular firm had the disease in their herd, and this State veterinarian lost several fine Shorthorn cattle which were exposed to those infected with foot-and-mouth disease in 1908.

The CHAIRMAN. And your answer to Mr. Anderson's question, then, is that this necrotic stomatitis is a common disease among cattle?

Dr. MOHLER. Yes, sir. The germ is widespread and also attacks hogs, sheep, and other animals. The men who examined these cattle were the men who had had experience in 1908; they were not green men.

The CHAIRMAN. Well, that brings you up to October 10, 1914.

Dr. MOHLER. Yes, sir. Several days prior to October 10 our Detroit office was visited by the State veterinarian, who asked the inspector in charge to proceed with him to Berrian County to investigate the disease. The visit was made and the report of the inspector, Dr. Schaffter, reached Washington October 10, stating, as I said before, that there were certain reasons why it could be foot-and-mouth disease and certain reasons why it could not be foot-and-mouth disease. But his letter was so comprehensive, giving the number of animals in the herd, stating how infectious the disease appeared to be, and how the period incubation was decreasing, compared with



previously, that we thought it might be foot-and-mouth disease, and we immediately sent an expert from here to Niles, Mich., that same day.

That letter was accompanied by specimens from the infected animals. I took those specimens out to our station at Bethesda, Md., that same afternoon and inoculated three calves. One calf did not show any symptoms until seven days afterwards, although it was injected into the jugular vein, a method that usually produces the disease in from six hours to four or five days. The second animal did not develop symptoms until nine days, and the third animal remained alive without showing any symptoms whatever. I mention this merely as an indication of the mildness of the virus of the disease at that particular time.

The CHAIRMAN. I was just about to ask you what that indicated. You may proceed.

Mr. HAUGEN. You spoke of experienced men. Did you have reference to the men employed by your department or by the State?

Dr. MOHLER. To both.

Mr. HAUGEN. But at the time one of your representatives was present, was he?

Dr. MOHLER. Yes, sir.

Mr. HELGESEN. When did you first know that it was foot-and-mouth disease?

Dr. MOHLER. We sent Dr. Eichhorn to Michigan that evening, and he made his examination on October 12, Monday morning. He wired something like this: "Clinical picture positive. Advisable to send Mohler on first train," and so on. I can bring you the telegram, but it was in words to that effect: "Advisable to send Mohler on evening train to reach Niles to-morrow afternoon."

Dr. Melvin immediately wired back to inoculate a calf, to confirm his clinical diagnosis, and also stated that I had those three calves under close observation, and if the symptoms did not develop in these calves in 48 hours I would immediately proceed to Berrian County. The 48 hours elapsed, and as no symptoms appeared in those calves, I left for Niles, Mich., arriving there on October 15, at half past 6 o'clock in the evening.

We immediately went out that evening in an automobile and examined some of the infected cattle and the calf that Dr. Eichhorn had inoculated on Monday. That calf showed slight but typical symptoms of foot-and-mouth disease. The various cattle that we inspected by electric flashlight also showed typical lesions of foot-and-mouth disease, and I immediately wired a night letter to the bureau here in Washington that the calf inoculated showed slight but typical lesions of foot-and-mouth disease; that after an examination of a number of infected animals, it was indisputably the European disease, and stated something in reference to sending 15 men to start the work of eradication.

Mr. HAWLEY. What day of the month was that?

Dr. MOHLER. That was the 15th. A night letter was sent October 15 and reached here the 16th. On the 16th I sent out a few men that were available to ascertain the extent of the outbreak. I had wired ahead from Buffalo to the Detroit office, so that we would have one of the men from the Detroit office available, and Dr. Melvin had ordered several other men there, in case it proved to be foot-and-mouth disease.

So, on the 16th of the month, we scouted up and down in the infected area, in order that we could circumscribe the area of infection. In the evening I wired here that we thought we had the number of herds in Michigan that were infected, 39. The disease had been spreading evidently since the time of the report to the department on the 10th of October.

Mr. HAUGEN. That was really from early in September to October 16?

Dr. MOHLER. I am speaking about the number of herds that Dr. Shafter reported on. When he went out in October, he found more herds than the two herds the first man had found. Shafter found about eight herds, and when we got out there about eight or ten days later there were 39 herds. On the following day, the 17th, we did the same kind of scouting in northern Indiana to see how extensive the disease was in Indiana, and, as a result of two days' scouting, we wired that we thought the disease was confined to four counties, and recommended that quarantine be placed on Berrien and Cass Counties, in Michigan, and St. Joseph and Laporte Counties, Ind. The States, by the way, did not quarantine those counties. They only quarantined townships in those counties, and the wisdom of that is shown by the fact that Cass County, Mich., has never become infected. There are 191 herds in Berrien County infected, but the disease never got east of the St. Joseph River, except in one instance.

Mr. HELGESEN. The Government has the right to quarantine a district, large or small, where the disease exists, has it not?

Dr. MOHLER. Yes; so far as interstate traffic is concerned. So we quarantined those two counties in Michigan and those two counties in Indiana.

The CHAIRMAN. What date did that become effective?

Dr. MOHLER. October 19 for those four counties.

Mr. HELGESEN. Did the State cooperate with you in quarantining those counties?

Dr. MOHLER. Yes; that is the only way to do it effectively.

Mr. HAUGEN. I know that is the way it is done, but I say you had no difficulty whatever?

Dr. MOHLER. We had no difficulty whatever.

Mr. HELGESEN. It is not necessary for the United States Government to quarantine a whole State, where the disease appears only in certain sections of the State, is it?

Dr. MOHLER. Not unless we suspect hidden centers of infection; that was done when a larger territory was involved than we at first thought.

Mr. HAUGEN. When you quarantined a whole county in a State, and the State only quarantined a township, was there not a conflict of authority there?

Dr. MOHLER. There was no real conflict. We did not know that the Washington authorities were going to accept our recommendations; in fact, they do not always do so.

Mr. HAUGEN. Do you mean the Washington office here accepting the recommendations of the men in the field?

Dr. MOHLER. Yes.

The CHAIRMAN. You first have to ascertain the fact of the existence of one of these contagious diseases, before the Secretary of Agriculture has any authority under the law to declare a quarantine, do you not?

Dr. MOHLER. Absolutely.

The CHAIRMAN. Now, that brings you to October 19, when the quarantine was declared effective.

Dr. MOHLER. Yes, sir.

Mr. HAUGEN. Well, on October 15 they had the knowledge.

The CHAIRMAN. Yes. Now, then, when did this National Dairy Show in Chicago take place?

Dr. MOHLER. Somewhere around the 22d of October.

Mr. HAUGEN. What did you do in the way of publicity?

The CHAIRMAN. I was just going to ask that question.

Dr. MOHLER. In accordance with the law we have a general rule of publishing the contents of all these quarantine orders in two newspapers published in the State involved, and we did that for Michigan and for Indiana, and I do not know how much further. But the local newspapers were full of the story about the foot-and-mouth disease.

We sent our publications out from Washington; and we have a considerable number on foot-and-mouth disease. We gave out those stories to various newspapers including Chicago papers, and had as much publicity given to the matter on the 16th of October as it was possible for the two local papers to handle. The Chicago papers sent men in from Chicago to get the information subsequently.

The CHAIRMAN. On the 16th of October?

Dr. MOHLER. Some time after the 16th of October.

Mr. McLAUGHLIN. What newspapers were you publishing it in in Michigan?

Dr. MOHLER. I could not tell you. They were selected on account of having a large circulation. That is done as a routine matter. I can find out the names for you.

The CHAIRMAN. Have you any knowledge as to when the Chicago papers first made mention of the foot-and-mouth disease?

The CHAIRMAN. But they sent their correspondents there on the 16th of October?

Dr. MOHLER. I do not know whether it was the 16th. It was after we diagnosed the disease, but the two local Niles papers, the Sun and the Star, published information about the foot-and-mouth disease daily after the 16th of October.

The CHAIRMAN. Did the Chicago correspondents reach Niles, Mich., before the quarantine was declared effective?

Dr. MOHLER. No; I do not believe they did.

The CHAIRMAN. You do not think they did?

Dr. MOHLER. I did not meet them at that time, but probably a few days later.

The CHAIRMAN. About how long after that date, if you have any recollection?

Dr. MOHLER. I do not recall. I was out there on two different occasions, and I met them in October, but I could not tell you the exact date.

The CHAIRMAN. Was any story sent out from Washington to the Associated Press relative to this quarantine on October 19?

Dr. MOHLER. The Office of Information published an article about that date, but I can not tell you the exact time.

Mr. HAUGEN. About what time was that?

Dr. MOHLER. I could not tell you. This is a matter of record in the Office of Information.

The CHAIRMAN. I think it is important that the date of this notice here from Washington should go into the record, and I will ask Dr. Mohler, with the consent of the committee, to furnish that date.

Dr. MOHLER. On October 19 the office of information sent a long story about the foot-and-mouth disease quarantine to the five press associations, the Washington Post and Herald, and to all the correspondents of Michigan and Indiana papers.

Furthermore, on October 19 the Secretary sent out notices to 16 railroads and express companies about the quarantine on the four counties in Michigan and Indiana. They were addressed to Chicago, Detroit, Cincinnati, Cleveland, Indianapolis, Montreal, St. Louis, Baltimore, New York, and Jackson, Mich., six of the general managers in Chicago receiving them. Similar notices were sent to the State Journal, Lansing, Mich.; the Star, Niles, Mich.; Indianapolis News, Indianapolis, Ind., and the News-Times, South Bend, Ind., for publication. On October 16 Editor Gillam of the Niles Sun sent dispatches to the Free Press and News, of Detroit, and Editor Cook of the Niles Star sent news items to New York World, Detroit Journal, and Grand Rapids Press.

Mr. McLAUGHLIN. When did you know of the first publication in relation to this matter in the Chicago Tribune?

Dr. MOHLER. I have not any definite information on that at all. We get clippings from those Chicago papers, but I have not any definite information.

Mr. McLAUGHLIN. Can you learn?

Dr. MOHLER. I believe so, sir.

Mr. McLAUGHLIN. And put it in the record.

Dr. MOHLER. The Chicago Drivers' Journal was the first Chicago paper to publish news about the outbreak of foot-and-mouth disease in Michigan, and the date was October 16.

Mr. HELEGSEN. In your opinion, do you think the English system of practically putting a quarantine on the whole country temporarily, until they can find out what the ravages are—do you think that would be an unnecessary precaution?

Dr. MOHLER. I have never understood England to do that. In fact, all the publications of the English Government indicate that they do not do that.

Mr. HELEGSEN. In the breaking out of a disease of this kind do you not think it would be a wise precaution to prevent shipments over the whole country for a few days?

Dr. MOHLER. A few days would not be sufficient.

Mr. HELEGSEN. Well, whatever the time required is.

Dr. MOHLER. I think that would be an unnecessary hardship, to close up a territory absolutely free from the disease and to make everybody suffer, because the disease is in a relatively limited area.

Mr. HAUGEN. You might describe more fully about your publicity bureau, or Office of Information. To what extent do you carry your publicity matters? Was the publicity given to this matter due publicity?

Dr. MOHLER. Yes; I consider that due publicity was given to the information we had about the foot-and-mouth disease, not only direct to the newspaper men, including the Associated Press, but also through a number of articles which were sent out.

Mr. HAUGEN. And there was nothing held back?

Dr. MOHLER. There was nothing held back.

Mr. HAUGEN. It was given to the press freely?

Dr. MOHLER. I can file the circular letters and letters from the Office of Information with the committee.

Mr. HAUGEN. Do the newspaper men generally call at the office for information?

Dr. MOHLER. Yes, sir; at that time they came in five or six together to get information.

Mr. HAUGEN. Every day?

Dr. MOHLER. Every day; yes.

Mr. ANDERSON. When were the Chicago Stock Yards closed, do you remember?

Dr. MOHLER. On the 31st of October.

Mr. COOPER. What answer did he give?

Mr. ANDERSON. The 31st of October.

Dr. MOHLER. The quarantine of the Union Stock Yards took effect on the 31st of October.

Mr. HAUGEN. Had you any knowledge of the National Dairy Show being held at Chicago?

Dr. MOHLER. Yes, sir; we had.

Mr. HAUGEN. What notice did you give the authorities of the dairy show? Did you give them any notice of the prevalence of the foot-and-mouth disease? I should not say "you," but the department?

Dr. MOHLER. I could tell you right now that I did not. I was up to see Dr. Melvin last evening about a certain line of information that would answer your question. He is ill with pneumonia and I was not able to send the question up to him. But he told me, on our recent trip to Chicago, that he had sent information to Mr. Skinner or some other individual in Chicago that it would be inadvisable for the show to take any cattle from Michigan on account of the outbreak of the foot-and-mouth disease.

Mr. HAUGEN. Who is Mr. Skinner?

Dr. MOHLER. He is manager of the dairy show.

Mr. McLAUGHLIN. What was the date of the communication to Mr. Skinner?

Dr. MOHLER. I could not tell you.

The CHAIRMAN. You may now continue your statement, Dr. Mohler.

Dr. MOHLER. After the quarantine went into effect in those four counties in Michigan and Indiana, everything was going along smoothly. The disease was being confined to the originally infected counties and we knew nothing further about any spread of the disease until the 28th of October. I had gone to the dairy show with the secretary on Sunday, October 25, and I left Chicago on the 27th of October, with the idea of stopping for several days at Niles, Mich., to look over the work there. When I got to Niles that evening, there was a report from Blissfield, Mich., that some steers from Chicago were ill. We took a late trolley down to South Bend.

Mr. ANDERSON. What date was that?

Dr. MOHLER. That was the night of the 27th of October.

Mr. HELGESEN. Had those steers been shipped from Chicago and they were ill in Michigan?

Dr. MOHLER. Yes, sir.

Mr. ANDERSON. What was the character of those; were they beef steers or feeders?

Dr. MOHLER. They were stockers and feeders. They were shipped from Chicago on the 19th of October.

Mr. HAUGEN. You had better let him proceed in his own way.

Dr. MOHLER. I reached Niles on the 27th, Tuesday evening, and I was informed at once about this illness among the steers at Blissfield, Mich. We went down to South Bend, Ind., that night and got up early the next morning to make the 4 o'clock connection from Chicago to Blissfield, and reached Blissfield Wednesday morning, October 28. Several of the steers were found to be pretty seriously infected with foot-and-mouth disease. The others were not infected as yet.

That was the first information we had that the Chicago Stock Yards might be infected. These animals came from Chicago on the 19th of October, and it was then a question whether the stockyards were infected or whether the steers had been shipped in an infected car. In order to play safely, we assumed that the Chicago Stock Yards were infected and did not make light of the proposition by assuming that the car only was infected. I called up Dr. Bennett from Blissfield, Mich., and told him about this individual shipment. I asked him to get all the information possible about other shipments coming out since the 19th of October and cautioned him to keep his eye on the National Dairy Show herd.

I reported at once to Washington about this occurrence at Blissfield among the steers. On the morning of the 29th a telegram was sent to Dr. Bennett by the Washington office as follows:

Endeavor arrange with management of the National Dairy Show to hold all exhibition animals there until November 7 for investigation contagious disease. Wire answer.

The CHAIRMAN. What was the date of that telegram?

Dr. MOHLER. October 29.

Mr. ANDERSON. Whom was that from?

Dr. MOHLER. Dr. Steddom, Acting Chief of the Bureau of Animal Industry.

Mr. ANDERSON. And to whom was it?

Dr. MOHLER. To Dr. Bennett, who was inspector in charge at Chicago.

The CHAIRMAN. The first information you had that the Chicago Stock Yards might be infected was on the 19th of October—or was it later than that?

Dr. MOHLER. No; it was on that Wednesday morning, October 28, and that led back to October 19, when the steers were shipped from Chicago.

The CHAIRMAN. Oh, yes; I see. The inference was that the infection was in the Union Stock Yards October 19 prior to that date.

Dr. MOHLER. Precisely.

Mr. HAUGEN. But not discovered by you until the 27th?

Dr. MOHLER. No; the 28th.

Mr. HAUGEN. No; Wednesday was the 27th.

Dr. MOHLER. I left Niles October 27 and got into Blissfield the next morning, Wednesday, October 28.

Mr. HAUGEN. What was the date of the opening of the dairy show?

Dr. MOHLER. October 22. Then, that same day, October 29, Dr. Melvin sent another telegram to Dr. Bennett in Chicago:

Get in touch with Dyson immediately—

Dr. Dyson is the State veterinarian of Illinois—

Urge him to hold cattle in dairy show until November 7 for observation. Important all these animals be known to be healthy before disbanding. Immediately arrange for cleaning and disinfecting pens for use of feeding cattle, and cleaning and disinfecting of all cars used by same. Have frequent and careful examinations made of cattle of the dairy show. Require usual disinfection and precaution by employees making such examinations. Call on Houck for rubber capes if necessary—

Houck is our officer in charge of eradication work in Indiana and Michigan.

Now, the question of sawdust comes in here. When these animals arrived in Chicago to be exhibited, Dr. Bennett, in charge of the yards in Chicago, knew that we had foot-and-mouth disease in Indiana and Michigan, and on his own initiative took the precaution of having these animals led out of the cars over sawdust sprinkled with creosol solution.

Mr. HAUGEN. What date was that?

Dr. MOHLER. The gentleman over there [indicating] can tell you.

Mr. SPANN. From the 19th to the 21st.

Mr. FRENCH. From the 18th to the 21st.

Mr. HAUGEN. Then he had notice at the opening of the show?

Dr. MOHLER. Yes; he was informed on October 16, and we also notified the State veterinarian of Illinois from Niles, Mich. I had the State veterinarian of Michigan notify the State veterinarian of Illinois the 16th of October.

Mr. HAUGEN. What did he advise him?

Dr. MOHLER. The cattle were coming in—

Mr. HAUGEN (interposing). He had no knowledge of it before the cattle arrived?

Dr. MOHLER. Probably they were all en route.

Mr. HAWLEY. Is that correct? Did he not know of it on October 16?

Dr. MOHLER. Yes, sir; but these cattle were coming in from all sections of the country.

Mr. HAWLEY. But he knew three days before they began to arrive in Chicago?

Dr. MOHLER. No, sir; they were en route. Some of them came from Canada, arriving October 18 and perhaps earlier.

Mr. HAUGEN. What date did the show begin?

Dr. MOHLER. My impression is the 22d.

Mr. FRENCH. The animals were received from the 18th to the 21st, as I remember. Eighty per cent of the animals were in Waterloo, and were shipped as one consignment and could have been stopped at any time before the 20th.

Mr. HAUGEN. You say 80 per cent of them?

Mr. FRENCH. Yes; 80 per cent of them were at Waterloo in one consignment and could have been stopped by telegraph. If they had got a telegram by the 20th, they could have stopped them. The cattle did not arrive, as I remember, until the 21st.

Mr. HAUGEN. And Dr. Bennett had knowledge of it on the 16th?

Dr. MOHLER. Yes, sir; but he did not have knowledge of the Waterloo part of it, you understand; he did not know anything about this 80 per cent proposition. He knew there were cattle shipped from Canada and from Minnesota and from other distant points, and

he was taking this precautionary measure of having the animals unloaded on disinfected sawdust.

Mr. ANDERSON. And there was no knowledge of infection at Chicago at that time?

Dr. MOHLER. Absolutely none.

The CHAIRMAN. And you had quarantined the Michigan and Indiana counties on the 19th?

Dr. MOHLER. Yes, sir.

Mr. HAUGEN. To what extent did that quarantine go—the quarantine in Michigan? What does that imply? It excludes all shipments, does it?

Dr. MOHLER. Yes, sir.

Mr. HAUGEN. Under what regulations?

Dr. MOHLER. Mr. Moss has read the——

Mr. HAUGEN (interposing). What I want to know is, if cattle could be shipped through the infected districts—the quarantined districts—could they go through those districts in sealed cars?

Dr. MOHLER. Stock in free areas could go through the infected areas to other free areas on the other side if they were in sealed cars.

Mr. HAUGEN. Are the cars disinfected before or after going through the infected districts?

Dr. MOHLER. Not going through the infected districts; but if they are unloaded in the infected districts, they must be disinfected before they can get out again.

The CHAIRMAN. Did I understand you to say that on the 19th of October you notified Mr. Skinner, the secretary of the dairy show——

Dr. MOHLER (interposing). The general manager——

The CHAIRMAN (continuing). The general manager of the dairy show that cattle from Michigan would not be permitted to come into the show?

Dr. MOHLER. That is the information I was trying to get from Dr. Melvin.

The CHAIRMAN. You were trying to get that from Dr. Melvin?

Dr. MOHLER. Yes; and I was not able to get it. Dr. Melvin gave me the information that he had informed somebody in Chicago about the advisability of forbidding Michigan cattle from being entered in the National Dairy Show on account of the disease existing in Michigan.

Mr. HAUGEN. You are quite certain that that was prior to the opening of the show, are you?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. It was prior to the opening of the show?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. Were any cattle exhibited from the State of Michigan in the show?

Dr. MOHLER. I could not tell you.

The CHAIRMAN. Mr. Spann, have you that information?

Mr. SPANN. I have not, Mr. Chairman.

The CHAIRMAN. Col. French, have you any knowledge?

Mr. FRENCH. My impression is that there was a herd there from Michigan, but I am not positive. I can telegraph and get that information for you. I will do so.

The CHAIRMAN. All right. Mr. Mohler, you may proceed.



Mr. HELGESEN. What, in your opinion, is the importance of these great foundation herds of the country?

Dr. MOHLER. They are fundamentally necessary to improve the live-stock industry of the country. There is no question about the seed value of such herds.

Mr. HELGESEN. And they are all represented by a small number of associations, are they not?

Dr. MOHLER. Yes, sir; each particular breed has its own particular association.

Mr. HELGESEN. Do you not think it would be a wise thing—without any criticism of the past—where there has been a suspicion of the disease in the country, to notify those people and the railroads, so they would have a knowledge immediately—I mean the officials of the association simply, because I am satisfied that they would distribute it to the rest.

Dr. MOHLER. There are so many of those organizations to notify; we notify the newspapers and get the information out in a popular form. It is just a question of where you are going to stop; if you notify those associations, then they will say you ought to notify the sheep, swine, and other breeders' associations, and so on.

Mr. HAUGEN. It is just a question of giving the widest publicity to it.

The CHAIRMAN. Right on that point, I would like to read into the record the method of notice required by the law itself:

When the Secretary of Agriculture has determined the fact that cattle are infected with a contagious disease, the Secretary of Agriculture is directed to give written or printed notice of the establishment of quarantine to the proper officers of railroads, steamship, or other transportation companies, doing business in or through any quarantined State or Territory, or the District of Columbia, and to publish in such newspapers in the quarantined State or Territory or the District of Columbia, as the Secretary of Agriculture may select, notice of the establishment of the quarantine.

First of all, he must establish the fact that there is the existence of one of these communicable diseases; and when that is done, he is required under the law to make certain publications of the fact.

Now, did the Secretary of Agriculture, as a matter of fact, make due publication as required by the law?

Dr. MOHLER. Yes, sir; that law was entirely complied with in every instance.

The CHAIRMAN. All right; you may proceed.

Dr. MOHLER. When we detected the herd of infected cattle at Blissfield, the question then naturally arose as to whether the Chicago Stock Yards were involved, and we immediately had one of our agents, who is an expert on the tracing of cars, go into Chicago and get into communication with the different railroad companies, to find out the number of shipments, and the points of destination of stockers and feeders that left Chicago from the 15th of October.

Inspectors were immediately sent to these various points of destination to which cattle had been shipped from the Chicago yards, and we commenced to find infection in Ohio, Indiana, Iowa, Pennsylvania, and New York, until at the present time we have 21 States under quarantine. The greatest amount of the infection and the widespread dissemination of the disease were due to the Union Stock Yards in Chicago becoming infected, for from that central focus the disease went north, south, east, and west, as far west as

Spokane, Wash., as far east as New Hampshire, and as far south as Kentucky.

The CHAIRMAN. Now a question has arisen here, Dr. Mohler, that the department has been discriminating between certain classes of individuals in the movement of cattle out of the Union Stock Yards. Have you any information on that point?

Dr. MOHLER. No, sir; all I can tell you is that the quarantine order became effective October 31, and at the time this order went into effect there were a number of cattle in the Union Stock Yards. So far as I know they went for slaughter; most of them right there at the abattoirs within the Union Stock Yards district. In fact, there were 616 steers that were involved, and being feeders of very little value from a butcher's standpoint, they remained in the yards until the 3d of November. The disease then started to break out in these steers, and this was the first absolute knowledge we had that the pens in the Union Stock Yards in Chicago were infected. That was two days after the first dairy cow showed the infection in the dairy show herd. The first cow that became infected in the dairy show herd was a Holstein animal from Minnesota, on the 1st day of November.

Mr. SPANN. May I ask a question, Mr. Chairman, with Dr. Mohler's permission? Is it not the fact, Dr. Mohler, that Dr. Bennett received information from the department on the 28th of October, instructing him to detain the dairy show cattle there for observation?

Dr. MOHLER. Here [indicating telegrams in witness's hand] is the only information I have, and these I have already submitted.

Mr. SPANN. And that he would not allow us to leave the grounds; and is it not the fact that they did ship out of the Union Stock Yards at Chicago as late as the 30th?

Dr. MOHLER. It is a fact that they shipped out of the Chicago Stock Yards as late as the 30th, but you are absolutely wrong in saying that any information went to Dr. Bennett prior to the 29th about holding the dairy show herd.

Now, I phoned to Dr. Bennett, merely as a precautionary measure, as stated, a day before the information went to Dr. Bennett officially from Washington; but it is absolutely the fact that he received no information from Washington on the subject before the 29th. Here [indicating telegrams in witness's hand] are the documents that show that the information went from Washington in two telegrams on the 29th of October, and it is true that shipments went out of the Union Stock Yards until the 31st of October, because we did not quarantine them until then.

Mr. SPANN. He refused to allow us on Thursday, the 29th of October; and he said he had been instructed by Dr. Melvin to hold the cattle there for observation. Now that is the fact.

Dr. MOHLER. I told Dr. Bennett from Blissfield to keep a watch on that dairy-show herd.

Mr. SPANN. But they did ship them out of the stockyards on the 30th, two days later than the day ours were first held.

Mr. HELGESEN. According to your statement he held the dairy-show herd under your instructions——

Dr. MOHLER (interposing). No, sir; I only told him to keep a lookout.

Mr. HAUGEN. The statement is that he did hold them but probably not by authority from the department, but on his own authority; but it was represented to these gentlemen that he had authority from Washington.

Mr. SPANN. That is the fact.

Dr. MOHLER. What were the orders—

Mr. McLAUGHLIN (interposing). Your communication from Blissfield was of what date?

Dr. MOHLER. If you have a calendar I can tell you, exactly. It was October 28th.

Mr. McLAUGHLIN. And the official communication to Dr. Bennett from Washington was of what date?

Dr. MOHLER. October 29th, and the closing of the stockyards was on October 31st.

Mr. McLAUGHLIN. Now, give the date of your communication to him from Blissfield.

Dr. MOHLER (examining calendar). October 28. Col. French, the 25th was a Sunday.

Mr. SPANN. I did not say anything about the 25th.

Dr. MOHLER. I was speaking to Col. French. The 25th was Sunday; Monday was the 26th.

Mr. McLAUGHLIN. Your communication to Dr. Bennett from Blissfield to Chicago was on the 28th, was it?

Dr. MOHLER. Yes, sir.

Mr. McLAUGHLIN. Do you remember the hour of the day?

Dr. MOHLER. Some time in the afternoon. This Blissfield herd was about 8 miles away from Blissfield, and when I came back to Blissfield to luncheon I left a long-distance telephone call for him. It was several hours afterwards before I could get the Chicago office—I should say about 3 o'clock on the afternoon of the 28th.

Mr. HELGESEN. According to the testimony, the exhibitors were refused permission to take their cattle out of Chicago on the 28th of October, while the ordinary quarantine was not in force until the 29th.

Mr. SPANN. What was Thursday?

Dr. MOHLER (examining calendar). The 29th.

Mr. SPANN. It was on Thursday, the 29th.

Mr. ANDERSON. It was Thursday the 29th, instead of Thursday the 28th, then?

Dr. MOHLER. There is absolute agreement between us, you see.

The CHAIRMAN. Do you gentlemen agree to the 29th of October as the date?

Mr. SPANN. I do.

The CHAIRMAN. Do you, Col. French?

Mr. FRENCH. It was Thursday. That was the important point.

Dr. MOHLER. I did not change my dates, although Col. French told me the 25th of October was Monday; I had in mind that the 26th was Monday; but I took Col. French's statement that it was not.

Mr. SPANN. In my original testimony I gave the days of the week instead of the days of the month. That was on Thursday.

Mr. ANDERSON. I would like to go back a little in order to get into the record something about the long letter that you referred to from Dr. Fess.

Dr. MOHLER. No; Dr. Schaffter.

Mr. ANDERSON. Well, Dr. Schaffter. What was the date of that letter—September 3?

Dr. MOHLER. No; it was in October. He made his investigation about the 6th or 7th and went back to Detroit from Niles, and wrote the letter. He sent the letter to Washington, and we received it October 10.

Mr. ANDERSON. Could we have a copy of that letter for the record?

Dr. MOHLER. Yes, indeed.

(The letter referred to is as follows:)

UNITED STATES DEPARTMENT OF AGRICULTURE,  
BUREAU OF ANIMAL INDUSTRY,  
*Local office, 408 Post Office Building, October 7, 1914.*

CHIEF BUREAU OF ANIMAL INDUSTRY,  
*Washington, D. C.*

SIR: On Monday, October 5, Dr. G. Dunphy, State veterinarian, Mr. H. H. Halliday, president of Michigan State Live Stock Commission, and myself proceeded to Niles, Mich., to further investigate the outbreak of the disease affecting the mouths and feet of cattle and swine.

Since the disease was first investigated by Drs. Dunphy and Fees about one month ago, when the malady first made its appearance in two herds, it has spread to six additional herds in the neighborhood, having affected all the cattle in each herd except one animal in a herd of 21 cattle.

On four farms the swine became affected. On the evening of October 5 Dr. Dunphy received information from a veterinarian at Buchanan, Mich., which is about 6 miles from Niles, Mich., that there were four herds in that vicinity affected with the disease.

We visited the eight herds near Niles, which were confined in an area of about 2 miles square, and found that in the majority of the cattle the disease had run its course, as far the lesions in the mouth were concerned, but many of the animals were still lame.

The swine had apparently all recovered from the mouth and feet lesions.

The farm first visited belonged to S. H. Kohn, whose herd of eight cattle had all been diseased. The last cow that became affected, and which showed well-marked lesions, was drooling slightly, with considerable foam at the corners of the mouth. Two ulcerouslike lesions were seen on the end of the tongue, and a similar lesion about the size of a dime on the muzzle.

The tissues between the digits of the two fore and one hind feet showed lesions. Two yearlings showed healing lesions on dental pad and on one hind foot. The disease in this herd had about run its course. There were sheep and pigs on this farm, but up to the present time have not manifested any of the symptoms of the disease.

The second place visited was the farm of Mr. Ballard. He has a herd of 50 cattle, and he reported that every one of these became affected with the disease. A few of the more recently affected animals were examined, and only cicatrices were found in the mouth, but a number of the animals were still lame.

During the progress of the disease in the herd four calves died. The death of three of these Mr. Ballard attributed to the feeding of the milk from the diseased cows. The cows are turned out daily for exercise into the field that is nearly bare of vegetation.

Mr. A. Stock's farm was next visited. He has 2 cows and 13 pigs, which were all reported as having been diseased except one cow, which was found at the time of our visit to have become recently affected. She showed numerous lesions like ulcers on the muzzle and a few erosions on tongue and dental pad. There was an accumulation of foam at corners of mouth, with slight drooling, and a few erosions on teats.

The pigs had apparently recovered. Around the horn of the feet were ridges, such as are seen on feet of animals having had laminitis. The hogs were kept in a lot that was free of any grasses. Drs. Dunphy and Hallman, at the time they were diseased, examined and report them as having shown lesions similar to those found in the cattle.

The next farm visited was that of Mr. J. A. Gilson. He had four cattle—two cows and two calves. One of the cows was convalescent; the others showed extensive involvement of the muzzle. The ulcerouslike areas varied in size from 1 to 3 mm. in diameter. There were several erosions on the dental part and one erosion on the tongue; also lesions on the interdigital space of the fore feet. Two calves were tied to trees in an orchard which adjoined the premises on which the cows were kept. One of the calves showed an irregular outlined erosion just anterior to the dorsal

ridge of the tongue, which was about the size of a silver dollar; also a smaller lesion near the tip of the tongue. Some saliva was escaping from the mouth. The other calf still remained free from infection.

The farm of Mr. Doster was next visited. There were 7 cattle and 10 pigs on these premises. All these animals were reported as having had the disease. Two of the cows calved about 10 days prior to the termination of the period of pregnancy, and both calves died.

We left this place to go to the farm of Mr. Unrach, where the disease first made its appearance. He has a herd of 21 cattle, and all but one animal are reported to have been affected, six weeks having elapsed since the herd became affected. All the animals appeared to have fully recovered, as was also the case with the cattle belonging to Mr. Hoadly, at the farm next visited. He had six cattle, all of which, he said, had been diseased, and the disease ran a complete course in three weeks. The pigs owned by him were also reported as having been affected with sore feet. We visited this farm late Monday evening, having been informed that the pigs were suffering from a recurrence of the disease. Upon our arrival we were told by Mr. Hoadly that he suspected his hogs to be affected with cholera. We returned the following morning and found one of the animals dead and another in a dying condition. A post-mortem examination was made of both cases and the lesions found in each were a massive pneumonia of the cephalic and caudal lobes. Whether this pneumonic condition can be associated with their previous malady is problematical.

Dr. Dunphy secured specimens from these cases for further examination.

We proceeded from this place to the farm of Mr. S. Powden, who reported to Dr. Graham, local veterinarian, that his cattle were suffering with a foot-and-mouth disease. Here I had the opportunity of seeing the disease in its incipency. One cow, which was first noticed to be affected by Mr. Powden on October 5, had only a slight elevation of temperature, exhaustive lesions on outer surface of under lip, two large vesicles containing a yellowish fluid on the muzzle, the dental pad was extensively involved, and a small area on the mucous membrane inside of the lips. The teats showed numerous red spots. There was evidence of lesions between the claws of one fore foot. Two of the three remaining cows, which next showed symptoms as observed by Mr. Powden, had high temperatures. One cow's temperature was only a fraction less than 106°. They drooled rather profusely. The lesions on the dental pad were extensive. One of the cows showed two erosions on the buccal membrane about 1 c. m. in diameter and one area somewhat larger on the mucous membrane of the lower lip. The other cow showed only slight lesions on the dental pad. The flow of saliva from the mouth was less pronounced. Small red spots were found on the teats of each of these animals. One of these affected areas was about 5 m. m. in diameter.

Mr. Powden was asked if he entertained any idea as regards the cause of the disease among his cattle, and he at once replied that he knew where it came from. He said that Mr. Kahn's cattle broke out of their grazing lot onto his premises on Sunday, September 27. The other farmers expressed themselves as not having any idea of the cause that might be responsible for the outbreak in their herds.

The disease, in all cases, seems to be ushered in by an elevation of temperature, followed by salivation, inappetence, and diminished secretion of milk. The affection of the feet is secondary. Of all the animals examined there was an absence of the small vesicles upon the mucous membrane of the mouth, udder, and coronary band, which characterizes the symptoms of foot-and-mouth disease. On the other hand, the tongue lesions of the calf owned by Mr. Gilson and the mouths of the cows owned by Mr. Powden closely resemble lesions described for animals affected with foot-and-mouth disease. What seems peculiar about these outbreaks is the rapidity with which the disease spreads and its affecting all animals in a herd, and its apparent transmissibility to swine.

On Saturday, September 26, Drs. Dunphy and Hallman secured material from lesions of some of the affected animals, and on Monday, September 28, they inoculated a calf. The injection was made under the mucous membrane, in the supra-anterior portion of the dental pad. Thursday, October 1, the calf showed a temperature of 106.7°. On the morning of October 2 its temperature was 105.2°; in the evening 105°; on the morning of the 3d it was 104°, and in the evening 102.8°. The animal was noticed to begin drooling October 1. Dr. Dunphy reports the drooling to have been profuse and it continued for 18 hours. Three erosions were found on the tongue, one on the lip and two anterior to the dorsal ridge. At the time Dr. Dunphy last examined the calf the feet lesions had not yet developed.

Three specimens secured from the lesions of affected animals at Niles were forwarded to your address under a separate cover.

Very respectfully,

E. P. SCHAFFTER,  
*Inspector in Charge.*

The CHAIRMAN. Now, coming back to October 29, I understand that on that date these exhibitors at the National Dairy Show were notified that the cattle were being detained; is that a correct statement?

Dr. MOHLER. On October 29?

The CHAIRMAN. Yes; on October 29.

Dr. MOHLER. No, sir; not that they were being detained.

The CHAIRMAN. That they were being observed?

Dr. MOHLER. That they were being observed. Bennett was advised to get in touch with Dr. Dyson immediately; urging him to hold cattle in dairy show until November 7 for observation.

Mr. HAWLEY. That means detention—"hold."

Dr. MOHLER. We had no power to hold them until—

Mr. HAWLEY (interposing). Would he not take that to be authority from the department to detain them—"hold"?

Dr. MOHLER (reading). "Urge him (Dyson) to hold." We did not say it was mandatory.

Mr. ANDERSON. Who was Dr. Dyson?

Dr. MOHLER. The State veterinarian of Illinois. We say "Get in touch with Dyson immediately."

The CHAIRMAN. And urge him to detain the cattle.

Dr. MOHLER. We could not slaughter that herd. I repeat, Dr. Dyson was the only man who could legally slaughter the herd. We had no control, further than to prevent them from crossing the State line; and they were under the jurisdiction of the State of Illinois. This telegram does not say there was anything mandatory about it; it was simply to "urge him to hold cattle." It does not say to have Dr. Bennett hold them.

Mr. FRENCH. Is it not a fact that Dr. Bennett could prevent those people from shipping those cattle across the State line?

Dr. MOHLER. Not on October 29.

Col. FRENCH. Well, that is our contention.

Dr. RAMSAY. He could not hold them until they went across the State line?

Mr. HELGESEN. What was the date of that?

Dr. MOHLER. October 29. The other telegram was asking for acquiescence on the part of the management of the dairy show; it was written the same date to the same man, Dr. Bennett:

Endeavor to make arrangement with management National Dairy Show to hold all animals until November 7 for investigation contagious disease. Wire answer.

Mr. HAUGEN. What was the date of that?

Dr. MOHLER. October 29, the same date as the other.

The CHAIRMAN. Do you interpret that to mean that you had to get the acquiescence of the management of the dairy show before you could hold these animals?

Dr. MOHLER. No, but we wished their assistance; that was the mild one. The other one put it up to Dr. Bennett to get in touch with Dr. Dyson to urge him to hold the animals.

The CHAIRMAN. What answer did the management of the dairy show make to that first telegram?

Dr. MOHLER. There is no information here [indicating] from the exhibitors at all. They can tell you about that better than I can.

Mr. HAUGEN. When did you authorize Dr. Bennett to hold these cattle?

Dr. MOHLER. On October 29 we wired him to have the State hold them.

Mr. HAUGEN. You authorized him to hold them then?

Dr. MOHLER. The telegram does not say that.

Mr. HAUGEN. When did you communicate with the doctor over the telephone?

Dr. MOHLER. October 28.

Mr. HAUGEN. And you told him then to keep his eye on them?

Dr. MOHLER. Yes; to keep his eye on them.

Mr. REILLY. Your information is that you did not authorize him to hold them; simply told him to urge the State Veterinarian of Illinois to hold them?

Dr. MOHLER. Yes. Here [indicating papers in witness's hand] is the only thing I can stand by, the telegram.

Mr. REILLY. Is it a fact that you did advise him to hold them? Could you do that?

Dr. MOHLER. We could only quarantine them at the State line.

Mr. REILLY. Well, that is the same thing.

Dr. MOHLER. They could have been sent to any other point in Illinois, but we could have quarantined them in the dairy show barn, so far as interstate shipment is concerned.

Mr. ANDERSON. Did you not do that?

Dr. RAMSAY. Not until October 31.

Dr. MOHLER. Not until October 31, when the stockyards were quarantined; that included the dairy show herd.

Mr. HAUGEN. But Dr. Bennett held them before that, on the order sent by you or by the department, did he not?

Dr. MOHLER. He and Dr. Dyson together did; the cattle were held there. The telegram here [indicating] shows it was in conjunction with the State veterinarian.

Mr. HAUGEN. But I believe the testimony here before the committee is that Dr. Bennett held them.

Mr. HAWLEY. Dr. Dyson held them within the State of Illinois, and Dr. Bennett held them as to shipment out of the State of Illinois.

Mr. HAUGEN. Dr. Bennett would have to cooperate with the State veterinarian?

Dr. MOHLER. They were cooperating.

Mr. HAUGEN. The question is this: Were the cattle detained on the 29th of October?

Dr. MOHLER. On the 29th; yes, sir.

Mr. HAUGEN. Actually detained?

Dr. MOHLER. Yes, sir.

Mr. HAUGEN. And no quarantine was issued until the 31st?

Dr. MOHLER. The quarantine was issued on the 31st; yes, sir.

Mr. HAUGEN. There was evidently a misunderstanding between Dr. Bennett and the department; but there is no question about the cattle having been detained on the 29th; and the contention being made here by these gentlemen is correct?

Dr. MOHLER. I do not know what their contention is.

Mr. HAUGEN. Well, that the cattle were detained and that they asked permission to ship the cattle home——

Mr. REILLY. On the 29th?

Mr. HAUGEN. On the 29th; and no quarantine issued until the 31st?

Dr. MOHLER. When was the show over? I believe the show was not over until the 31st, and I doubt very much if these gentlemen would have been willing to take their cattle home on the 29th. That would indicate that the show did not extend beyond the 28th.

Mr. FRENCH. We asked permission on the 29th; and the dairy show would have been closed on the 29th, if that permission had been granted. We asked permission, and Dr. Bennett absolutely refused permission to allow the animals to cross the State line into Iowa.

Mr. HAUGEN. On what date?

Mr. FRENCH. On the 29th.

The CHAIRMAN. While you are on your feet, Col. French, let me ask you this question: When this telegram from the department reached Dr. Bennett asking him to get in touch with you gentlemen of the dairy show to arrange some method of observing your cattle, or detaining them, whatever it may have been, what was the answer of you gentlemen to that?

Mr. FRENCH. A request to be allowed to ship our animals home.

Mr. HAUGEN. You are positive about the date?

Mr. FRENCH. It was Thursday, the 29th.

Mr. HAUGEN. You are positive?

Mr. FRENCH. Yes.

Mr. REILLY. You are positive that it was a wise order to prevent you from shipping the animals home?

Mr. FRENCH. We have had the knowledge that it was.

Mr. REILLY. You did have the knowledge that it was?

Mr. FRENCH. I now think it was a wise provision.

Mr. REILLY. Then I do not see what complaint you have.

Mr. HAUGEN. But you are complaining about the discrimination, are you not?

Mr. FRENCH. The discrimination between us and the stockyards.

Mr. REILLY. Well, that does not affect the issue; because there was other cattle going out that might spread the disease does not justify your cattle going out.

The CHAIRMAN. I want to ask Dr. Mohler a question on that very point. Did you allow no shipments of other cattle out of the Union Stock Yards on October 30?

Dr. MOHLER. Yes, sir; the order did not go into effect as to the Union Stock Yards until the 31st. But I want to explain the difference.

The CHAIRMAN. I wish you would do so.

Dr. MOHLER. The National Dairy Show was visited by hundreds and thousands of people from all quarters—not only from this country, but from foreign countries. I could not begin to describe the number of people, farmers and stock owners, that went into that dairy show barn; and the danger of those people bringing in infection from Indiana and Michigan was much greater to the National Dairy Show herd than it was by people walking around the open cattle pens in the Union Stock Yards. We considered the danger from the human element in the National Dairy Show herd far in excess of the cattle element, either in the National Dairy Show herd or the Union Stock Yards; and we were taking precautions against that human element, not the cattle.

The CHAIRMAN. What precaution did you take in the way of disinfecting your cars, and such other precautions as you did take with



respect to those cattle that you permitted to be shipped out of the Union Stock Yards on October 30? Did you take any precautions?

Dr. MOHLER. Yes, sir; Dr. Mosher went into the Chicago Stock Yards from Blissville on the 29th of October and traced out those cars that had been carrying out stock since October 15, and had the railroad companies take them to their disinfecting places, like Elkhart, to be disinfected. Dr. Bennett wired all cars would be disinfected beginning October 29.

The CHAIRMAN. You permitted no car to go out of the Union Stock Yards until it had been thoroughly disinfected, on the 30th of October?

Dr. MOHLER. Yes, sir; that is true. Dr. Mosher did not get into Chicago until the 29th, and Bennett wired us that day that, as requested in our telegram of October 29, already submitted, disinfection of all cars began that same day.

The CHAIRMAN. Well, you knew on October 29, and prior to that date, as far as that is concerned, that there had been infection in the stockyards?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. And on the 30th you permitted cattle to be shipped out of the stockyards?

Dr. MOHLER. On the 30th this order [indicating] was in process of being sent out; we had to have our stenographers write it out and the solicitor review it. Then it went through the secretary's office, and it took effect the next day. That is the history of this order.

The CHAIRMAN. You do not catch my point. The point is, that having the information on the 29th that the Union Stock Yards had been infected, having traced the disease from Michigan back into the stockyards, I am trying to find out if you took any precaution as to the cattle shipped on the 30th to prevent the spread of the disease? Do you catch what I am trying to bring out? Did you disinfect them; did you disinfect the cars; did you make them ship in sealed cars?

Dr. MOHLER. We had no control on the 30th; but the railroads willingly complied with our request of October 29 to disinfect all cars. We had no authority to make them disinfect cars until we could prove that they were exposed, and we had to give them certain notice, according to law. We were complying with that law, which required an interval between the time we found the disease in Blissville and the time of the issuance and the effectiveness of this order.

The CHAIRMAN. Now, on the 29th you detained the dairy show stock; why did you not have the same authority to detain the stockyards stock on the 30th?

Dr. MOHLER. Well, as I stated before, it had the effect of retaining them; but we were working in cooperation with the State. It was the State that we wanted to detain the dairy show herd.

The CHAIRMAN. Is it your contention that all stock that left the Union Stock Yards on the 30th of October were for interstate shipment, and therefore you had no authority over them until the quarantine had been declared?

Dr. MOHLER. That is my contention; we had no authority over them until we complied with the law, and had the notice sent out, and had the stockyards people and the railroads note the time of the effectiveness of the order.

Mr. REILLY. When you sent that telegram to your Chicago man, you proceeded at once to get out regulations for a quarantine, did you?

Dr. MOHLER. Yes, sir.

Mr. REILLY. And just as quickly as you could?

Dr. MOHLER. Yes, sir.

Mr. REILLY. Your Chicago man, with the State authorities, applied that as a quarantine of the dairy show cattle as soon as he got it?

Dr. MOHLER. Yes, sir.

Mr. REILLY. And the order as to the stockyards was gotten out as soon as it could be?

Dr. MOHLER. Yes, sir; as soon as it could be.

The CHAIRMAN. This is the whole situation, it seems to me: Did the veterinarian of the State of Illinois detain any cattle other than these dairy show cattle from shipment either on the 29th or the 30th of October?

Dr. MOHLER. Not that I know of.

The CHAIRMAN. Not that you know of?

Dr. MOHLER. No, sir.

Mr. YOUNG. Just one question: Were any of those cattle that were shipped out on the 29th or the 30th shipped into interstate commerce?

Dr. MOHLER. I presume they were.

Mr. HAUGEN. They were free to ship until the 31st?

Dr. MOHLER. They were free to ship until the 31st.

Mr. HAUGEN. There were no restrictions whatever except as to the dairy-show herd, and that was not by the authority of the department; it was simply that this man Dr. Bennett assumed that authority, probably through some misunderstanding.

Dr. MOHLER. Yes.

Mr. REILLY. He considered that to be a quarantine, and put it into effect?

Dr. MOHLER. Apparently.

Mr. HAUGEN. There is no question about that, is there?

Dr. MOHLER. No, sir.

Mr. HAUGEN. The herd was detained on the 29th?

Dr. MOHLER. Yes, sir.

Mr. HAUGEN. And the other cattle were permitted to be shipped out without any restriction whatever?

Dr. MOHLER. Yes, sir.

Mr. HAUGEN. Not by the department, but by an employee of the department exercising that authority?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. I do not understand that to be Dr. Mohler's statement. Let me put the proposition again: Your contention is that on October 30, because of the fact that the quarantine had not been issued, you had no authority to detain cattle shipped from the Union Stock Yards?

Dr. MOHLER. That is correct.

The CHAIRMAN. That is correct?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. And that on the 29th the dairy show herds were detained upon the order of the veterinarian of the State of Illinois?

Dr. MOHLER. Yes, sir; that is right.

Mr. HAUGEN. No; not the State of Illinois. The statement is that it was by Dr. Bennett, who represented the department.

Dr. MOHLER. Well, they were working together. As this telegram [indicating] shows, we asked Dr. Bennett to urge Dr. Dyson, State veterinarian of Illinois, to hold those cattle; and they worked in harmony. What orders went out from the Illinois office I could not say.

Mr. ANDERSON. You recognized when you sent that telegram that you did not have authority to quarantine, and you were asking the State veterinarian to do it?

Dr. MOHLER. That is why it was sent in this form.

Mr. REILLY. If your telegram to Dr. Bennett could have carried a quarantine in the first instance, would it have carried it?

Dr. MOHLER. It could not.

Mr. REILLY. But if it could?

Dr. MOHLER. I suppose it would have, yes.

Mr. REILLY. You went as far as you could at that time?

Dr. MOHLER. That is absolutely true.

Mr. REILLY. And he, of his own motion and discretion, put the quarantine in effect; and you closed it the next day or so with the regular quarantine of the department?

Dr. MOHLER. I will not say it was at his own discretion.

Mr. REILLY. Yes; but he did do it; and the fact of the matter is that he did the right thing under the circumstances, as the gentleman here [indicating] admits.

Mr. HAUGEN. Were the cattle detained by Dr. Bennett, or by the State veterinarian? Dr. Mohler says by the State veterinarian, and the gentlemen here say by Dr. Bennett. Dr. Bennett represented the department.

Dr. MOHLER. Dr. Bennett would not let them go without the State, and Dr. Dyson would not let them go within the State.

Mr. HAUGEN. Then you agree that the cattle were detained by your representative?

Dr. MOHLER. Yes, sir.

Mr. HAUGEN. Prior to the quarantine?

Dr. MOHLER. On October 29.

Mr. HAUGEN. And that was without the authority of the department, and without the authority of law? The department is not to blame for that, because they have thousands of people employed all over the country.

Dr. MOHLER. Well, I think that is true.

Mr. MOSS. Here is a question I want to settle, whether or not the telegram to Dr. Bennett from the department gave him authority to quarantine this herd. It does not make any difference what he did; the question is what authority the Department of Agriculture conferred upon Dr. Bennett by this telegram.

Dr. MOHLER. The Solicitor is here and can answer.

Mr. McLAUGHLIN. He is here himself and can answer.

Mr. HAUGEN. No authority could be conferred; but the injustice was done.

Mr. HAWLEY. Suppose that in the matter of these dairy-show cattle, on the 29th or 30th of October—the 30th—the dairymen had made an arrangement with the State veterinarian that, so far as he was concerned, he would not object to their moving the cattle if they put

them in sealed cars and shipped them out of the State of Illinois at once, would you have held Dr. Bennett, under your telegram, to have been remiss in his duty if he had allowed them to go into interstate commerce?

Dr. MOHLER. No, sir; he could not have been held responsible; we could not have made him responsible on the wording of that telegram.

Mr. REILLY. But if you had had the power then and there to hold them, you would have stopped them from going out?

Dr. MOHLER. We would have stopped them, and this [indicating] is as near that power as we could get.

Mr. HAUGEN. You would have stopped not only the dairy-show herd, but them all?

Dr. MOHLER. No, sir; for two reasons. I explained that the danger in the case of the dairy herd was much more, from the human element, with so many thousands of visitors, and also because these cattle were returning to the finest dairy herds in a large number of States.

Mr. HAUGEN. You agree that there was discrimination, but that was the reason for it?

Dr. MOHLER. I do not agree that there was any discrimination by the department.

Mr. REILLY. The gentlemen claimed that there was discrimination after the order was issued, in defiance of the order.

Mr. HAUGEN. The discrimination occurred between the 29th and the 31st, if there was a discrimination.

Dr. MOHLER. That is a point——

Mr. HAUGEN (interposing). That occurred at that time, and there was a reason which he gives.

Mr. SPANN. Dr. Mohler says that there was more danger from the dairy show than from the Union Stock Yards; yet he says the infection was traced back to the Union Stock Yards; and I think he admits that on the 28th, 29th, and 30th there was no disease in the cattle in the dairy show.

Dr. MOHLER. Yes, sir; it was in there, because the first cow showed symptoms on the 1st of November; and that is proof positive that infection was in the barn on the dates mentioned.

Mr. SPANN. Well, do you not think that was a long period of incubation?

Dr. MOHLER. No, sir; not in this particular outbreak; no animal at that time came down with such a short period of incubation. We were then dealing with the disease in a very mild form. The dairy show people will state that their herd was affected by a very mild form of the disease, and mild forms generally run to a long period of incubation.

Mr. SPANN. You knew that they had it in the Chicago Stock Yards, did you not?

Dr. MOHLER. The first animal in the Union Stock Yards infected was a Holstein cow of the National Dairy Show herd; and two days after that the feeders in this bunch of 616 that were held in quarantine by the order of October 31 developed the disease. These feeders are now buried in the Union Stock Yards under 7 feet of soil.

Mr. SPANN. But these cattle shipped out on the 19th had the disease, and you evidently knew that.

Dr. MOHLER. As I explained, there were two conditions possible, either an infected car or infected yards—and nobody knows to-day which it was. We suppose now that it was infection in the yards.

Mr. HELGESEN. I understood you to say that on the 15th of October you sent a night letter to the department?

Dr. MOHLER. Yes, sir.

Mr. HELGESEN. That there were herds with symptoms of foot-and-mouth disease at Niles?

Dr. MOHLER. Yes, sir.

Mr. HELGESEN. And what was the date of the long letter about which Mr. Anderson asked?

Dr. MOHLER. I could not tell you the date, but it was received on October 10—Saturday afternoon.

Mr. HELGESEN. Mr. Anderson has called for the original letter.

Dr. MOHLER. Yes; that will be produced.

Mr. HELGESEN. As I understand, in that letter there was reference to the fact that there were symptoms of foot-and-mouth disease in Niles, Mich.?

Dr. MOHLER. It was stated in there that there were reasons why the disease could be foot-and-mouth disease, and other reasons why it could not.

Mr. HELGESEN. And that was on the 15th of October that you sent a night message that it was foot-and-mouth disease, and that was received on the 16th by the department?

Dr. MOHLER. Yes, sir.

Mr. HELGESEN. Now, do you hold that if Dr. Bennett refused to allow these cattle to be put in sealed cars and shipped out of the State that was in excess of his authority? You say he did not have any authority on the 29th?

Dr. MOHLER. No, sir; this [indicating paper in witness's hands] was the nearest authority we could give him under the conditions.

Mr. HELGESEN. Then, if he refused on the 29th he exceeded his authority in doing so?

Dr. MOHLER. He was working in harmony with the State.

Mr. HELGESEN. I understand.

Dr. MOHLER. There was no pressure brought to bear by the exhibitors. There was none until the desire to slaughter one or two of the animals came up. Before that there was no difficulty.

Mr. HELGESEN. But the statement has been made that they asked permission to ship the cattle out on the 29th, and permission was refused by Dr. Bennett. Now, you say he did not have authority, and if he did do that he exceeded his authority, as to interstate shipments?

Dr. MOHLER. I do not know how I can explain it more clearly than I have done.

Mr. HELGESEN. Well, did he have any authority to refuse to allow those cattle in interstate shipment on the 29th?

Dr. MOHLER. No, sir; no authority. There are certain conditions that have to be carried out before it is legal, and a telegram of this kind can not be considered a legal order establishing a quarantine. The chief of the bureau can not cause an interstate quarantine to be issued on a telegram.

Mr. HELGESEN. Can not the Secretary telegraph legal authority?

Dr. MOHLER. I will leave that to the Solicitor; I am not a lawyer.

The CHAIRMAN. Let me put into the record the law on the subject:

That the Secretary of Agriculture is authorized and directed to quarantine any State or Territory or the District of Columbia, or any portion of any State or Territory or the District of Columbia, when he shall determine the fact that cattle or other live stock in said State or Territory or the District of Columbia are infected with any contagious, infectious, or communicable disease.

(Thereupon, at 12.30 o'clock p. m., the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

STATEMENT OF DR. J. R. MOHLER—Continued.

The CHAIRMAN. Dr. Mohler, I think we had gotten to October in your testimony this morning, and we had about exhausted the question of discrimination between the different classes of cattle. Will you carry your statement a little further on until you get to the point where the quarantine was made effective and for a few days after that; what happened?

Dr. MOHLER. I believe, Mr. Chairman, I had reached the point where the inspectors were being sent out, looking after the stockers and feeders that had left the Chicago Stock Yards after the 15th of October. As fast as they traced these animals to their different points of destination the disease started to be uncovered in the various States.

Mr. HAUGEN. Dr. Mohler, Mr. Helgesen asked one question which I do not believe was answered. It has been attempted to prove that Dr. Bennett exceeded his authority in what he did in holding the stock. Is that admitted—that the stock was held or detained by Dr. Bennett? Do you concede that point—that he detained the stock without authority? Did he exceed his authority? I think that is a matter that ought to be cleared up.

Dr. MOHLER. I thought I made that plain, that no telegram would have the effect of a quarantine.

Mr. HAUGEN. There might be a question of whether the stock was detained by Dr. Bennett; that is, by authority from the department.

Dr. MOHLER. The State of Illinois had control of the local situation.

Mr. HAUGEN. I do not think it is fair to bring in the State of Illinois in this matter, because Dr. Bennett had the same jurisdiction over interstate shipments.

Dr. MOHLER. That is true.

Mr. HAUGEN. All these were interstate shipments, as I understand it. They went beyond the State line, and the only one that could exercise authority in that event would be Dr. Bennett.

Dr. MOHLER. Not entirely. A number of those cattle belonged to Illinois farmers.

Mr. HAUGEN. But take those outside of the State shipments. Let us consider those shipments that went outside of the State, the interstate shipments.

Dr. MOHLER. There were some interstate shipments.

Mr. HAUGEN. These people testify the stock was detained by Dr. Bennett. Your telegram showed he had no authority, and if he did detain the stock he there exceeded his authority.

Mr. McLAUGHLIN. But this witness says he does not know of his personal knowledge what Dr. Bennett did at that time, and as to the legal question, he prefers the solicitor of the department, who is here, to answer that instead of himself.

Mr. HAUGEN. I do not ask that he pass on the legal question, and I do not bring this up to the embarrassment of the department, but it is one question that ought to be cleared up.

Dr. MOHLER. Dr. Bennett had absolutely no authority to quarantine the herd.

Mr. HAUGEN. If it is not admitted, it would be nothing more than fair that these gentlemen here would be permitted to introduce additional evidence. There were some 25 people present at the time, as I understand, and undoubtedly if the testimony of these two gentlemen can not be accepted, then they ought to be permitted to introduce further evidence.

Mr. MOSS. Do you take the position that Dyson could not have prevented the shipment of these dairy cattle away from Chicago, even though they had been intended to go into interstate shipments?

Mr. HAUGEN. That is not a question that is involved here. The question is, Did Dr. Bennett detain these cattle?

Mr. MOSS. I understand you take the position that if the cattle were held at Chicago, they necessarily had to be held there by Dr. Bennett, because of the fact they were going in interstate shipments. The question I am bringing up is, Would not Dyson himself have the authority to hold these cattle there, and refuse, on the part of Illinois, to permit them to be shipped away from there, even if they were going in interstate shipments?

Mr. HAUGEN. The question for us to determine is, Who held the cattle?

Mr. ANDERSON. The only testimony in the record, so far as I can recall, is that these gentlemen say they asked Dr. Bennett whether he would permit them to ship their cattle home, and he said he would not. That is all there is to it. Nobody can dispute that except Dr. Bennett; and he is not here.

Mr. HAUGEN. If you do not accept the statement of these gentlemen, will it be necessary to introduce additional evidence? It seems to me that is the sole way of ascertaining, if you do not know whether the stock was detained by Dr. Bennett.

Mr. McLAUGHLIN. As to the department accepting it, we want to know whether that statement is true or not. I am not reflecting on the statements made by these gentlemen, but if any doubt arises in our minds as to the correctness of the statement, we would not take it from Dr. Mohler; we would take it from Dr. Bennett, who was present and made the statement himself.

Mr. HAUGEN. So far we have only ex parte evidence.

The CHAIRMAN. No; I think not. I think, as far as the department itself is concerned, their documentary evidence shows that whatever Dr. Bennett did before the 31st day of October was done upon his own initiative, although the telegrams and letters of the department suggested to Dr. Bennett a code of procedure under the laws of the State of Illinois.

Dr. MOHLER. Precisely. That is absolutely correct, and that is all the Department of Agriculture can do. It has control over interstate shipments solely.

Mr. HAUGEN. The State authority has nothing to do with these shipments. That comes absolutely under the jurisdiction of the Department of Agriculture, and there is a difference between State and interstate shipments.

Mr. ANDERSON. If they could not leave the barn they could not go into any shipment, either State or interstate.

The CHAIRMAN. The point I make is this: That until the quarantine is declared by the Secretary of Agriculture, whatever Dr. Bennett may have done was beyond his power in view of the documentary evidence which the department has presented this morning; and even though the department had commanded him to do these things, he could not, under the law, have done them until the quarantine was declared effective.

Mr. McLAUGHLIN. That is clear enough; but if we are going to go further than the statements of these gentlemen as to what Dr. Bennett did, we must get that information from Dr. Bennett himself. This witness can not tell anything about that. He has told us of the documents issuing from the Department of Agriculture to Dr. Bennett. We know the force and effect of those as well as anybody does.

The CHAIRMAN. Certainly.

Mr. McLAUGHLIN. But I submit this witness can not tell what Dr. Bennett did.

Mr. HAUGEN. Then I suggest that the chairman direct a telegram to Dr. Bennett and ask the question point blank, and let us know what he says.

Mr. REILLY. I suggest that this testimony, as it seems to me, is entirely irrelevant, because there is no one seriously contesting the wisdom of Dr. Bennett's action. The gentlemen appearing here from Iowa have admitted the proper thing was done. What is the use of going into that matter as to why he did it?

Mr. McLAUGHLIN. On that point, Mr. Chairman, I think it is not unfair to say that Col. French stands alone on that proposition. In his judgment the cattle should have been held there. The gentlemen associated with him differ from him. He is practically the only one who thinks the department acted exactly right.

Mr. HAWLEY. I suggest that Mr. McLaughlin ask that question of Col. French and get his statement in the record in reference to that matter from Col. French.

Mr. REILLY. But you have it; it is on the record twice already.

Mr. McLAUGHLIN. What have you to say on that proposition Col. French?

Mr. FRENCH. My statement is, Mr. Chairman, in view of the fact that agents of the Department of Agriculture knew that the foot-and-mouth disease was so prevalent, and which the owners did not know, that they were justified in keeping the cattle. That is my own opinion. That is my opinion about it. My opinion on the 29th day of October was that it was an outrage, because I had not the knowledge which the department had. Gentlemen, I am trying in every way that I can not to cast any reflection upon the Department of Agriculture, and any reflections that have been made on Dr. Bennett have been simply the facts to prove our case. My associates do not agree with me on the proposition that the department acted right even at that time.



Mr. HAWLEY. Do any of them agree with you on that point?

Mr. FRENCH. None of them.

The CHAIRMAN. You do not agree with that, Mr. Spann?

Mr. SPANN. No, sir. I think they acted as they thought was best, but I do not agree that it was best. At that time there was no infection that we knew of, and the further fact is that when infection did break out, there was one cow in a remote, far end of the barn, and that would have been the only animal that would have been infected if the cattle had been shipped home.

Mr. REILLY. Do you think all of the cattle should have been let go at that time?

Mr. SPANN. I think so.

Mr. REILLY. Were there not other cattle near that cow that was infected?

Mr. SPANN. That cow was not infected at that time, as far as anybody knows.

Mr. REILLY. It came out a few days afterwards?

Mr. SPANN. Yes.

Mr. REILLY. Are you prepared to swear there would not any danger have come from letting this animal go out?

Mr. SPANN. Nobody could do that.

Mr. REILLY. Was it not a wise precaution to keep them there?

Mr. SPANN. In my opinion it was a mistake. They thought it wise, and I may be mistaken.

Mr. REILLY. Why was it necessary for your State agricultural secretary to guarantee to take the cattle out in sealed cars?

Mr. SPANN. As a precaution against any outbreak at all.

Mr. REILLY. Why not leave them where they were to guard against infection, and as a precaution?

Mr. SPANN. Because, in agreement with me and others, the gentlemen believed these cattle had the disease, and if you brought them home they would be all right, and it was just an excuse of caution in case they did have it.

The CHAIRMAN. If you had had at that time the information that Dr. Mohler and the officials of the Department of Agriculture had at that time, would you have thought it wise to have released these cattle and send them broadcast over the country?

Mr. SPANN. Yes, sir; I would. I do not think there was any danger. They evidently did not think there was any danger, because they left the feeding cattle go out after that.

The CHAIRMAN. Proceed with your statement, Dr. Mohler.

Dr. MOHLER. In connection with what has been said, I would like to read a telegram from Dr. Bennett, dated on the 4th of November. That was three days after the first cow showed lesions:

Eleven show cows affected. One with new herd.

These cattle would not have reached Kentucky or whatever distant State they came from before they would have shown the disease.

Mr. REILLY. What was the date of that telegram?

Dr. MOHLER. November 4.

Mr. SPANN. If they had been let out on the 29th, they would have reached home.

Dr. MOHLER. No, sir; the period of incubation of the disease at that time was much longer than that. You would have carried

diseased cattle to the best dairy herds of the country. There is as much danger to your valuable home herds as there is to any other kind of a herd, and these cattle that were going to be disbanded and sent all over the country would have carried infection to other herds worth a million dollars. There was a great deal more danger of taking the infection back to this very fancy dairy stock than there was from letting the cattle remain in the Union Stock Yards and go to slaughter or go as feeders and breeders.

Mr. SPANN. I may possibly be mistaken about that, of course.

Dr. MOHLER. If you took the cattle home and infected your Kentucky herd, your home herd would be in the same condition as your herd in the dairy show?

The CHAIRMAN. After all, that is a matter of opinion and individual judgment.

Dr. MOHLER. Certainly.

The CHAIRMAN. Proceed with your statement, Dr. Mohler.

Dr. MOHLER. In connection with these telegrams read this morning with reference to quarantine of the dairy show herd in the stock-yards, I find another telegram that is dated the following day, October 31, addressed to Dr. Dyson, which further shows the department's attitude. This was to the State veterinarian, Springfield, Ill.:

Order quarantining Chicago yards will be issued to-day. Request you to hold cattle in dairy show until November 7, for observation. Important all these animals be known to be healthy before disbanding.

The following day the first cow in the dairy show developed the disease. This is merely to further substantiate the telegrams I read this morning.

The CHAIRMAN. You are confirming the position of the department all the way through, that it had been acting through Dr. Dyson under the authority of the State law?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. Until your quarantine was declared on the 31st of October?

Dr. MOHLER. That is precisely the point I wish to make.

The CHAIRMAN. All right, Doctor; go ahead.

Dr. MOHLER. The next quarantine order was issued on November 2, and in this quarantine order the entire States of Indiana and Michigan, as well as those of Illinois and Pennsylvania, were included, and the quarantine orders proceeded. I do not know whether you want to know the exact dates of these various quarantine orders for the different States?

The CHAIRMAN. It would not be a bad idea to put them in the record. I do not know, however, that you need to read them.

Mr. ANDERSON. You do not want to put all those statements in the record, do you, Mr. Chairman?

The CHAIRMAN. No; not the statements, but the dates of the statements and what they refer to.

Dr. MOHLER. On November 4 Maryland and New York were quarantined, on November 5 Wisconsin and Ohio, on November 6 Iowa and Massachusetts, on November 9 Delaware, New Jersey, and Rhode Island, on November 10 Kentucky, on November 16, Connecticut and Montana, on November 27 Loudoun County, Va., December 1 counties in New Hampshire, and on February 1 four counties in Kansas.

To merely illustrate the intensely contagious character of this disease I would like to refer to the outbreak that occurred in the State of Kansas as late as February 1. Twenty-six Holstein cattle, originated at the State asylum at Fond du Lac County, Wis., a county that has never been infected and a herd that never had any opportunity of becoming exposed. When those 26 Holstein cattle reached Chicago to be transferred from the Northwestern Railroad to the Santa Fe, it was found that the proper health certificate had not been obtained from the State authority, and the stock had to wait there 34 hours until the owner obtained the proper health certificate from Wisconsin. During these 34 hours he visited the Chicago Stock Yards and went back to his car, and eight days after the animals arrived at southwestern Kansas, the disease broke out among them. Now we have the State of Kansas infected.

Mr. REILLY. Is there any of that disease in Wisconsin at all?

Dr. MOHLER. There are no live animals affected now. The work is in very fine condition in Wisconsin and has been since Christmas. Indiana and Michigan are in the same fine condition.

Mr. COOPER. There was a new case broke out in the county of Rock on the 29th of December.

Dr. MOHLER. Yes; that is true. There have been several new cases, but the condition is very good, and we are releasing counties right along in the State of Wisconsin.

The CHAIRMAN. Dr. Mohler, before we took the noon recess, you made some suggestion that an injunction had been gotten out by somebody in reference to the killing of these cattle in the stock-yards or somewhere else. What was that?

Dr. MOHLER. It was not quite that, Mr. Chairman. I said there was no controversy, so far as we knew, with the dairy show owners about holding the animals there for a period of seven days, or in fact any other objection from the exhibitors, until the Department of Agriculture desired to kill the first few animals that came down with the disease, and then we received a telegram signed by Mr. Goodwin, I believe, an attorney for the exhibitors, in which he said that such procedure would not be permitted.

The CHAIRMAN. Was there ever any intention expressed or thought of by the department with reference to destroying the entire dairy exhibit?

Dr. MOHLER. No, sir; that never was the intention of the department. The order went out first to destroy this first Holstein cow that came down. It was thought that if we could slaughter the first few Holstein animals that had come down with the disease, we would prevent 95 per cent of the virus remaining on top of the ground and causing infection of other animals.

The CHAIRMAN. When your intention in that regard became known, you received this telegram from the attorney representing these people?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. That they would proceed into the courts and prevent your doing it?

Dr. MOHLER. I do not recall just the wording of the telegram, but it was words to that effect, that there would be an injunction ready to be served on the man that would endeavor to lead out the first animal.

Mr. HAUGEN. Who threatened to serve the injunction?

Dr. MOHLER. Mr. Goodwin, I believe his name is.

Mr. HAUGEN. One of the exhibitors?

Dr. MOHLER. No, sir; I believe he is attorney for them.

Mr. HAUGEN. Was he the attorney of one of the exhibitors or all of them?

Dr. MOHLER. I could not tell you that, Mr. Haugen.

Mr. HAUGEN. That has reference to this particular herd?

Dr. MOHLER. Yes, sir.

Mr. HAUGEN. These dairy cattle?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. Col. French, do you know anything about that?

Mr. FRENCH. Mr. Goodwin is attorney for the Exhibitors Association, and I presume acted with their authority.

Mr. HAUGEN. Has there been any other threat of injunction—I mean throughout the United States?

Dr. MOHLER. Yes, sir. There was an injunction obtained by the farmers of Richland County, Ohio, and an injunction was obtained by some individual in Kane County, Ill. I think it was a Mr. Carpenter, but I do not know positively that that is his name. The Richland County farmers got together and had the judge withdraw the injunction, and the same procedure followed in Kane County, Ill.; so that at present there are no injunctions anywhere so far as I know.

Mr. HAWLEY. Suppose there had been no objection and you had destroyed the first cow that came down with the disease, as others came down with it, if they had, would you have destroyed them?

Dr. MOHLER. We would have followed that policy up to a certain point.

Mr. HAWLEY. What would that point have been?

Dr. MOHLER. That would depend on circumstances and values involved. I could not say.

Mr. McLAUGHLIN. The first Holstein, you mean?

Dr. MOHLER. Yes. By the way, that Holstein was an animal that stood at the end of the row, where people would naturally come more in contact with her than others in the middle of the row of animals. These Holsteins, of which the one that became infected first was a member, had a large "For sale" sign over them, and they were being exhibited with the view of selling them. A number of people were there mouthing these animals and examining them to see how old they were, and it is not at all difficult to see how infection could be carried. One of the men told me that one of the farmers that had lost his animals in the State of Indiana had been present telling these boys of the dairy show how the Government slaughtered the animals, how they were buried, and how the attendants disinfected themselves, describing the apparatus and methods of disinfection.

The CHAIRMAN. Dr. Mohler, what effect, if any, did this threatened injunction have upon the policy of the department in reference to this situation?

Dr. MOHLER. We did not do anything further. About a week or so afterwards, the delegation of exhibitors reached Washington. Col. French, Mr. Marsh, Mr. Hill, Col. Fairfax, Mr. White, and Mr. Ames were in that delegation, and the question at that time was put up to the department whether we would not allow them to hold those animals

for experimental purposes at their own expense. Col. French had a very commodious horse stable within a mile of the stock yards, where these animals could be taken direct by cars outside the stock-yards section on the railroad tracks and unloaded without any danger into this stable. They were perfectly willing, they said, to keep the animals under quarantine for a year, if necessary, to carry out the purposes of the experiment.

Mr. ANDERSON. Let me understand that, Dr. Mohler. You say this committee came to Washington?

Dr. MOHLER. Yes, sir.

Mr. ANDERSON. Whom did they see in Washington?

Dr. MOHLER. They saw the Secretary and they saw Dr. Melvin.

Mr. ANDERSON. Were you there?

Dr. MOHLER. I was there when the conversation was had with Dr. Melvin.

Mr. ANDERSON. I think you had better state that conversation as nearly as you can remember it.

Dr. MOHLER. I was called in after the gentlemen had been with Dr. Melvin in his office for probably half an hour, so I can not tell what occurred previous to that time. But the point was presented to Dr. Melvin that this was a valuable herd, containing blood strains, that it would be a terrible hardship to the industry to lose, which is absolutely true, if the cattle should be slaughtered. They requested permission of the department to get these animals to a stable where they could be placed under observation to study the character of the lesions and to see how soon the animals would recover, and they agreed to place them under absolute quarantine until such time as the department considered it satisfactory and safe to let them go to their respective States.

Mr. ANDERSON. What was the date of this conversation?

Dr. MOHLER. Some time in November, as nearly as I can remember.

Mr. ANDERSON. It was after the disease had appeared in the herd?

Dr. MOHLER. Yes, sir; it was getting very extensive then. They were coming down at the rate of 10 or more a day.

Mr. ANDERSON. The proposition at that time was to remove the herd from the show barn to some other place?

Dr. MOHLER. To Col. French's stables, about a mile away from the stock yards.

Mr. ANDERSON. That has since been done?

Dr. MOHLER. No, sir. The City Council of Chicago refused to grant a permit, and they had some complications, so they were not able to move the animals to that particular point. After that they got a lease on a race track out at Hawthorne, farther out of town.

Mr. ANDERSON. Did the department at that time consent to the proposition submitted by Col. French and the committee?

Dr. MOHLER. The department was willing for the experiment to go on under those conditions.

The CHAIRMAN. Do I understand you to say the proposition of Col. French and this committee was that this experiment should be carried on at the expense of these exhibitors?

Dr. MOHLER. Yes, sir; they were willing to go to any expense and to keep the herd under quarantine for a period of time, they said, as long as a year, if necessary, to carry out the purposes of this particular experiment.

Mr. HAWLEY. In Col. French's stable?

Dr. MOHLER. In Col. French's stable; yes.

The CHAIRMAN. And without expense to the Government?

Dr. MOHLER. Yes, sir; absolutely.

Mr. REILLY. Dr. Mohler, if you had your way with that herd at that time, what would have been the condition of the herd to-day?

Dr. MOHLER. The Dairy Show herd?

Mr. REILLY. Suppose the owners had turned it over carte blanche to the department, what would have been the condition of the herd to-day?

Dr. MOHLER. We would have treated that herd like the hospital people would have treated children with scarlet fever. We endeavored to do that at the beginning. They had curtains made out of muslin, soaked with disinfectant, and the cattle were divided in small units so that in case one unit became infected, the disease would not be carried to others. The idea would have been to put that herd under hospital conditions, and there is documentary evidence to show that we advised that the herd be placed under such conditions. I think we sent such a telegram to Mr. Skinner, who is in charge of the exhibition there, and to others. There have been a number of scientists visit that place who have commented on the failure to keep the units distinct through laxity of the attendants, but I have not been there. I have not seen the herd at all since it became infected.

Mr. REILLY. Why did not the department take steps at once to put that herd under hospital conditions?

Dr. MOHLER. It did. There are telegrams to show that fact.

Mr. REILLY. You said they were coming down at the rate of 20 a day.

Dr. MOHLER. That was later on, when these gentlemen came to Washington.

Mr. REILLY. Then they were under hospital conditions, were they not?

Dr. MOHLER. No; that was the point.

Mr. REILLY. What prevented the department carrying out this plan?

Dr. MOHLER. The department never took charge of the herd at that time; they had nothing to do with it. It was under the State entirely. We made these suggestions of treating the herd under hospital conditions, but they employed their own veterinarian, who was a deputy State veterinarian. They can tell you the date of that transaction. I think it was about the middle of November. I remember very distinctly that this gentleman whom they employed called up the Washington office by long-distance telephone and wanted to know whether there was any objection from the department's standpoint for him to take charge of the herd, and we said if the State had no objections, we certainly had none.

Mr. REILLY. From your experience, what percentage of the herd would necessarily have been killed?

Dr. MOHLER. I could not tell you that.

Mr. REILLY. What has been the experience of the department's efforts in other herds?

Dr. MOHLER. We never tried it under these conditions.

Mr. REILLY. How many have you killed since the disease broke out in Niles, Mich., last October?

Dr. MOHLER. About 50,000.

Mr. REILLY. Fifty thousand head?

Dr. MOHLER. Yes, sir.

Mr. REILLY. Judging from that experience, what percentage of that herd would you have had to kill?

Dr. MOHLER. The conditions on farms are entirely different from conditions where this herd was. There are no hospital conditions on farms, and under those conditions where we killed these animals it would be merely a short period of time before the entire herd or even another herd would become infected.

Mr. REILLY. Then you had no assurance that if the department had been allowed to take charge of this work they would not have had to kill the whole herd?

Dr. MOHLER. No; not at all.

Mr. REILLY. What is the condition of the herd to-day?

Dr. MOHLER. I do not know. I have not seen the herd since the infection.

Mr. REILLY. Has there not been any valuable information accrued to the Government from this experiment there in trying to save this herd?

Dr. MOHLER. No more valuable information than is obtainable from the experiences of Germany, Switzerland, and France.

Mr. REILLY. Is not that the first experiment you ever had in this country on a laboratory plan of handling this disease?

Mr. MOHLER. Yes, sir.

Mr. REILLY. Has it not been valuable to the department?

Mr. MOHLER. Not up to this point.

Mr. REILLY. Suppose they succeed in saving every member of that herd?

Dr. MOHLER. You suggest a supposition that I can not accept.

Mr. REILLY. The supposition is that to-day the herd is pretty well cleaned up from the disease.

Dr. MOHLER. Not necessarily so; no, sir.

Mr. REILLY. We will assume it. Assume that it is a fact that the herd is saved and that not a single animal dies from the foot-and-mouth disease; has it not been a valuable experiment for the department?

Dr. MOHLER. It may prove to be, but if no other herds can be placed under the same conditions, how should it be valuable to the department?

Mr. REILLY. Is it the first experience you have had in this country?

Dr. MOHLER. Yes, sir.

Mr. REILLY. Is it not a valuable thing to have conducted that experiment successfully in that line?

Dr. MOHLER. Yes, sir.

Mr. REILLY. Then I say that experiment of trying to save the lives of that herd must be valuable to the department and to the science in the treatment of the foot-and-mouth disease. Is not that a fact?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. It would not be any more valuable to the department than it would be to the cattle breeder, would it, Dr. Mohler?

Dr. MOHLER. Not that I know of.

Mr. McLAUGHLIN. Has time enough elapsed so that you can determine whether these cattle have been cured?

Dr. MOHLER. No, sir; it has not. That is the reason I can not answer that question as to the value of the experiment.

Mr. REILLY. I assumed that in my question.

Dr. MOHLER. We have in the foot-and-mouth disease what they call virus carriers, just as in man we have typhoid Marys. People will recover from the cholera, for instance, and spread the disease for a year afterwards; and we have that condition to contend with in foot-and-mouth disease. Here are 750 animals in the dairy show. It is a very good gambler's chance that there is one weak animal among those 750, and it only requires one typhoid Mary among them to infect all the animals that may be susceptible.

Mr. REILLY. These gentlemen appearing for the breeders take the position that they are cured and that they have succeeded in demonstrating that that disease has been eliminated from that herd.

Dr. MOHLER. That is a wrong conclusion.

Mr. REILLY. Time will develop whether that is true or not?

Dr. MOHLER. Yes, sir; and it would be a very valuable experiment under those conditions for that kind of animals, like the dairy show breeds.

Mr. REILLY. And it will also tell the farmer who has a valuable herd of cattle what he can accomplish?

Dr. MOHLER. Yes, sir; and at what trouble and expense.

Mr. REILLY. But it is the general understanding among the farmers that when their herd contracts the foot-and-mouth disease they have to kill them?

Dr. MOHLER. Yes, sir.

Mr. REILLY. And now they will have some hope of cure for them if they get the right conditions?

Dr. MOHLER. The cure of the foot-and-mouth disease is not a very difficult proposition. This herd does not prove that, however. Herds have been cured in all countries.

Mr. McLAUGHLIN. What about the latent effect and the afterclap of this disease? Does it affect the animal?

Dr. MOHLER. It affects a certain percentage. These gentlemen referred to a number of animals which were destroyed following the infection of foot-and-mouth disease. They were slaughtered before they were removed from the dairy show barn.

Mr. SPANN. How many head were destroyed?

Dr. MOHLER. I do not know; four or five, I believe.

Mr. SPANN. Five; yes. In your experience as a veterinarian, if about 300 head of milch cows full of milk had had a very severe case of cowpox, would not you have had a good many cases of garget and would it not have been necessary to remove them?

Dr. MOHLER. Yes; very likely.

Mr. SPANN. And to have killed those cows?

Dr. MOHLER. Yes, sir.

Mr. SPANN. You say you do not know whether these cattle are cured or not?

Dr. MOHLER. No, sir.

Mr. SPANN. You do not know the condition of the cattle at all?

Dr. MOHLER. No, sir.



Mr. SPANN. Has not the department one or two veterinarians there?

Dr. MOHLER. Yes, sir; one.

Mr. SPANN. And do you not get any reports from him?

Dr. MOHLER. We get reports from him; yes.

Mr. SPANN. You were down in Chicago, were you not?

Dr. MOHLER. Yes, sir.

Mr. SPANN. And you did not go to see these cattle?

Dr. MOHLER. No, sir.

Mr. SPANN. No one objected to your seeing them?

Dr. MOHLER. No, sir. I got there one day and left the next, and all the time I was in Chicago I was exceedingly busy.

Mr. SPANN. This is an exceedingly important experiment, and you were down there—

Dr. MOHLER. There is nothing I could do if I saw them.

Mr. SPANN. Has not the report been made that these cattle have recovered so far as it can be shown they have this disease?

Dr. MOHLER. Yes, sir; so far as outward appearances are concerned.

Mr. SPANN. And are in the most perfect condition cattle could be in?

Dr. MOHLER. No; I would not say that. There are several lame bulls there, and there are two or three animals that have died in the last four or five weeks.

Mr. SPANN. You get reports of what they are doing there, and from what they died. They did not die from the foot-and-mouth disease, did they?

Dr. MOHLER. Not that I know of.

Mr. SPANN. And of that 750 head which have been kept in the stable now for four or five months, you would naturally expect to lose a few animals, would you not?

Dr. MOHLER. Yes, sir.

Mr. HAWLEY. What is the matter with that lame bull?

Mr. SPANN. He has dropsy in one leg, I believe.

Mr. HAWLEY. It is not the foot-and-mouth disease?

Mr. SPANN. No, sir; the veterinarian says it is not.

Mr. ANDERSON. Dr. Mohler, if I understand your position, the proposition is this: While these cattle may be cured of the disease, so far as appearances are concerned, there is absolutely no proof that they might not communicate the disease to other cattle if they were scattered over the country now?

Dr. MOHLER. Yes, sir.

Mr. SPANN. Is it not a fact that about 43 head of Guernsey cattle came to this country 18 years ago and were inspected on shipboard, and brought to Baltimore, and taken out to quarantine between Baltimore and Philadelphia, and those cattle were sold afterwards at public sale and scattered all over this country?

Dr. MOHLER. I saw that reported in the Breeders' Gazette, and I have had half a dozen letters from individuals about it. The shipment you refer to, according to the article in the Breeders' Gazette, occurred in 1883. That was the year before the Bureau of Animal Industry was established. At that time the importation of live stock was under the Treasury Department. I have gone through the Treasury Department reports, beginning with 1880 and continuing right up

to the time the importation of live stock passed into our hands, and there is no such record of any such importation. Furthermore, those cattle went to Pennsylvania, according to the statement in the Breeders' Gazette. The State veterinarian of Pennsylvania at that time was Dr. Bridge. Dr. Bridge was a member of the Pennsylvania State Board of Agriculture, and that board furnishes reports to citizens of Pennsylvania yearly. There is no statement of that kind about that herd in the year 1882 or 1883 or 1884, in the reports of the State Veterinarian of Pennsylvania, or in the reports of the Pennsylvania State Board of Agriculture. That is all I can tell you.

Mr. SPANN. Did you write to Dr. Bridge?

Dr. MOHLER. He is dead. He died about October, 1914.

Mr. FRENCH. Mr. Chairman, I think I can clear up this situation, if I may do so.

The CHAIRMAN. We would be glad to have you do so, Col. French.

Mr. FRENCH. It is true the cows were taken over into Pennsylvania but it is also true that they did not tell anybody that they had the foot-and-mouth disease. They all recovered and were shipped all over the country, and we have the facts from the man who took care of the cattle, and those facts can be produced for this committee if they desire them.

The CHAIRMAN. I do not think that is very material to this inquiry. Let me ask one further question of Dr. Mohler. How many outbreaks of the foot-and-mouth disease have we had in this country?

Dr. MOHLER. There was one in 1870, 1880, 1884, 1902, 1908, and then the present outbreak—six altogether.

The CHAIRMAN. What has been the policy of the Government in all of these outbreaks in reference to the payment for the destruction of the animals?

Dr. MOHLER. The Government only took charge of the last three outbreaks.

The CHAIRMAN. What was the policy of the Government in those three outbreaks?

Dr. MOHLER. The policy of the Government has been to co-operate with the States in quarantining the section of the State infected, to appraise the animals at their utility value, to have them slaughtered and buried under State law or State regulation, to disinfect the premises and hold the premises vacant for a period of time so that the time element would have something to do with the total elimination of the virus around the vicinity.

The CHAIRMAN. What has been your policy in reference to payments for destroying animals?

Dr. MOHLER. The policy of the Government was this: In the outbreak of 1902 we paid about 70 per cent of the appraised value, and the States paid the balance. In the outbreak of 1908 we paid 66 per cent, and the States paid the remaining one-third. In this present outbreak, the amount of the payment by the Government has been on the 50 per cent basis.

The CHAIRMAN. Is there anything in the Federal law compelling the department to make any payment for these slaughtered cattle?

Dr. MOHLER. No, sir.

The CHAIRMAN. Is it a voluntary act on the part of the Department of Agriculture?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. Sanctioned by Congress?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. Have you ever had a situation just such as you have in reference to this herd, where you quarantined them and held them for observation?

Dr. MOHLER. No, sir.

The CHAIRMAN. There is, therefore, no precedent on record which would either justify or not justify the payment of the expenses for this quarantine, is there?

Dr. MOHLER. Not to my knowledge.

The CHAIRMAN. Would you desire to express an opinion as to what the policy will be in reference to that—and if you do not care to do so, you need not do it, of course.

Dr. MOHLER. I would prefer not to express my opinion on that.

Mr. HELGESEN. What do you mean, Dr. Mohler, by "utility value"?

Dr. MOHLER. For instance, these steers that were referred to in the testimony this morning were purchased at Chicago at 7 cents a pound. We just took the bill that that man had taken from the commission house in Chicago and appraised them at that value.

Mr. HELGESEN. That would be on the basis of the beef value?

Dr. MOHLER. Yes, sir.

Mr. HELGESEN. In the case of dairy herds, you would take a different basis?

Dr. MOHLER. Yes, sir. We have paid as high as \$200 for fine dairy animals. We have paid \$125 for grade animals.

Mr. HAUGEN. What was the highest price paid?

Dr. MOHLER. I could not tell you.

Mr. HAUGEN. Can you give an estimate?

Dr. MOHLER. I think the highest prices paid, that I recall now, were for some shorthorn cattle killed up in Montana. They were animals taken out of Wisconsin and we paid about \$267 for some of the cows.

Mr. HAUGEN. The department paid that?

Dr. MOHLER. We paid half of it.

Mr. HELGESEN. You paid on that basis?

Dr. MOHLER. Yes, sir.

Mr. HAUGEN. Was that the dairy value, or the meat value, or what value was it?

Dr. MOHLER. That was the dairy value. They were dual-purpose cows.

Mr. HAUGEN. You considered them worth that money for dairy purposes?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. In that connection, you make your payments upon the beef and dairy value of the cattle?

Dr. MOHLER. Yes, sir.

The CHAIRMAN. Have you ever made payments upon the breeding value of the animal?

Dr. MOHLER. I believe there have been one or two instances of that kind, where it was desired to have the animals destroyed promptly and where there was objection made by owners to the destruction of the animals unless they got a higher value.

The CHAIRMAN. Has that been the policy of the department?

Dr. MOHLER. No, sir; that has not been the policy of the department. There were several exceptions, however. It was thought desirable to put the animals under the ground for the object lesson it would be to the other farmers in that vicinity.

The CHAIRMAN. What is your policy in reference to the animals that have been infected with this dourine? What is the basis of your payment in that respect?

Dr. MOHLER. I believe the maximum we pay is \$100 per animal. We pay on the basis of 50 per cent of the appraised value, and we limit it to \$100 for our share.

The CHAIRMAN. Did you take into consideration, in reference to that disease, the breeding value of the animal?

Dr. MOHLER. No, sir; because when an animal gets infected with dourine, it is like the foot-and-mouth disease—the breeding value is reduced, and particularly so with dourine, which is a very chronic, long-drawn-out disease, that is capable of being transmitted two or three years after the animal first becomes infected.

The CHAIRMAN. Do you find it necessary to destroy any other animals suffering with any other disease than dourine or the foot-and-mouth disease, like tuberculosis, or cholera?

Dr. MOHLER. No, sir; we have not.

Mr. HELGESEN. There has been very few cases of dourine in thoroughbred animals, has there not?

Dr. MOHLER. There have been some very valuable stallions out in North Dakota, worth several thousand dollars, that have had that disease.

Mr. HAUGEN. Did not the department destroy a number of cattle here in the District of Columbia, and was there not an appropriation made for it some years ago?

Dr. MOHLER. For tuberculosis?

Mr. HAUGEN. Yes.

Dr. MOHLER. Yes; just for the District of Columbia.

Mr. HAUGEN. I understood you to say there had not been any such cases.

Dr. MOHLER. Yes; I forgot that for the moment. They cleaned up the District of Columbia of tuberculosis some four or more years ago.

Mr. HAUGEN. You said there were one or two instances where you paid the full bill. How many cattle were in the herd, or what was the expense?

Dr. MOHLER. Where was that?

Mr. HAUGEN. You referred to one or two instances where the department had paid the real value of the stock.

Dr. MOHLER. One was the Barton herd out in Illinois, of brown Swiss cattle.

Mr. HAUGEN. How many head were there?

Dr. MOHLER. I can not recall the number.

Mr. HAUGEN. A considerable number?

Dr. MOHLER. About 40, I believe.

Mr. HAUGEN. About how much a head?

Dr. MOHLER. I really have not that information in my mind.

Mr. HAUGEN. And the number of the other herd?

Dr. MOHLER. There were 13 carloads of mixed cattle.

Mr. HAUGEN. Of full bloods?

Dr. MOHLER. Oh, no. What percentage were full blood and what percentage were not I could not tell you. The former were bought in Wisconsin, and only two cars, I think, contained pure breds. The balance were feeders from Chicago.

Mr. HAUGEN. I think you referred to two outside of Kentucky.

Mr. LEE. What did you do with this herd out at Benning?

Dr. MOHLER. Just recently?

Mr. LEE. Yes.

Dr. MOHLER. They are going to be killed this afternoon at 3 o'clock. They are digging the trenches this morning.

Mr. McLAUGHLIN. Something has been said, Dr. Mohler, about a request of the owners of the stock in this show building at Chicago about separating the animals as they were infected or taken down with the disease, so it might not spread, and that the Federal authorities refused to do that, and kept the stock in such a way that the infection spread all through the show barn. What do you say about that?

Dr. MOHLER. The first animal which came down with the disease and the next 10 or 11 or 12 or 13 were immediately taken out and put in the hospital in an outside stable. Is not that so, Mr. Spann?

Mr. SPANN. I was not there. I think Mr. McLaughlin has probably confused that statement with the statement that I made that there was no quarantine in the barn separating the infected cattle from the other cattle. The men in charge of the cattle which had not been infected were allowed to go down to where the cattle were infected. A man would say, for instance, "We have one down in our place," and the men in the other places would run down to see it. In that way it infected the whole barn.

Mr. McLAUGHLIN. The statement was made, as I remember it, that request had been made to separate and quarantine them within the barn, so that those not infected might be saved, and that the request was absolutely refused by the Federal authorities.

Mr. SPANN. There was a request made. There was a request made of the authorities there, Dr. Bennett and Mr. Dyson, to allow us to take these cattle that had not been infected away from the barn. We could not take the infected ones out. They had no place for them.

Mr. McLAUGHLIN. What do you know about that, whether or not the cattle infected were separated or anything done to protect those not infected at the time from coming down with the disease?

Dr. MOHLER. I know that the first 20 or 30 or 40 cattle were taken down as soon as they showed symptoms of the disease and put in this hospital that Mr. Spann mentioned and that I mentioned a while ago, and entirely isolated from the remainder of the dairy herd.

Mr. McLAUGHLIN. Do you know of any precaution that might have been taken to save those animals there from being infected by those that had already shown the symptoms—any precautions that might have been taken that were not taken?

Dr. MOHLER. As I said before, we sent them telegrams to have these animals treated like the children in a scarlet-fever hospital, and of course it was necessary to deal with the attendants. These people were all up against that proposition of having attendants to take care of their animals, and from what I understand there was no control at all over the men.

Mr. McLAUGHLIN. If there was any failure then to observe your rules as to segregating them in any respect in the quarantine, it was by the employees and attendants of the owners of the cattle?

Dr. MOHLER. Probably the employees used the same buckets and the same currycombs and things of that character.

Mr. SPANN. To your knowledge, were they instructed not to do those things?

Dr. MOHLER. I do not know what instructions they received.

Mr. SPANN. Was it not a fact that they did have these sheets, soaked with disinfectants, around the cattle sheds?

Dr. MOHLER. They did; yes. But there is no use of putting sheets around if you have men going from one herd to another, giving different herds water from the same buckets, and using the same currycombs, and halters, and things of that kind.

Mr. COOPER. Mr. Chairman, may I ask a question or two right here?

The CHAIRMAN. Certainly, Mr. Cooper.

Mr. COOPER. I introduced the bill because I received a great many letters from farmers in three different counties in my district. They have associations there and, as you know, they have some very fine-bred cattle there as exhibitors. They sent resolutions to me and so I fixed this bill myself and notified them I had done so, and they brought it up in Chicago.

You said, Dr. Mohler, that on October 15 you wired to Washington, to the Secretary of Agriculture, or to the Department of Agriculture, that there was foot-and-mouth disease in Niles, Mich.?

Dr. MOHLER. Yes, sir.

Mr. COOPER. And you also said that on the 16th, the next day, you notified Dr. Bennett, your inspector in Chicago?

Dr. MOHLER. Yes, sir.

Mr. COOPER. Of what did you notify him? You notified him there was foot-and-mouth disease symptoms, did you not?

Dr. MOHLER. I do not know about the 16th of October.

Mr. COOPER. That was your testimony, I believe.

Mr. ANDERSON. No; the 26th of October.

Dr. MOHLER. No; that was another telegram.

Mr. COOPER. You notified him on October 16. Of what did you notify him on that date? If you discovered foot-and-mouth disease on the 15th of October at Niles, you notified the department and—

Dr. MOHLER (interrupting). This is the way I think I notified him: This telegram of mine was October 15, and it was addressed to the Washington office here, and I stated that it was indisputably the European disease; that the local supply of rubber goods was not satisfactory and asked if they would wire Bennett to send us rubber coats and rubber boots, and things of that character. He was notified on October 16 indirectly in that way. He sent materials and kept us supplied with material from Chicago on account of there being a better center, of course, for this kind of things than we had at Niles.

Mr. COOPER. Dr. Bennett furnished those to you?

Dr. MOHLER. Some of those things; yes.

Mr. COOPER. That was for the purpose of combating the foot-and-mouth disease at Niles?

Dr. MOHLER. Yes, sir.

Mr. COOPER. Did he send them in answer to your information or request sent him on the 16th of October?

Dr. MOHLER. Yes, sir; that was the date the Washington office notified him.

Mr. COOPER. When did you get that at Niles?

Dr. MOHLER. The goods?

Mr. COOPER. Yes.

Dr. MOHLER. It was some time later.

Mr. COOPER. About what time?

Dr. MOHLER. We had to buy a lot of material from the local dealers and we had material sent there from Washington.

Mr. COOPER. You say you saw on the 15th that indisputably it was the European disease?

Dr. MOHLER. Yes.

Mr. COOPER. Exceedingly contagious, you said?

Dr. MOHLER. Yes, sir.

Mr. COOPER. And virulent?

Dr. MOHLER. Yes, sir.

Mr. COOPER. Did you not think then there ought to be some notice sent to the management of that great dairy show about that condition?

Dr. MOHLER. It was not in my mind at all about the dairy show. I was not thinking about the dairy show particularly at that time.

Mr. COOPER. But it is a fact that both you and the department in Washington knew on October 15 that the foot-and-mouth disease was at Niles, Mich., within 82 miles of Chicago?

Dr. MOHLER. Yes, sir.

Mr. COOPER. Of an extremely contagious kind, as you recognized it to be indisputably the European disease?

Dr. MOHLER. Yes, sir.

Mr. COOPER. I know what magnificent service the department renders and what service your bureau renders. I have no attack to make, or anything of that kind, upon you personally. But do you think there was the precaution taken that proper care demanded to prevent the spread of that virulent contagion that you knew of on October 15 or 16?

Dr. MOHLER. Yes, sir; I do.

Mr. COOPER. There was nothing to prevent men from coming through Niles, Mich., and going to Chicago, or going anywhere, was there?

Dr. MOHLER. No; and we have no control over them even now.

Mr. COOPER. But in view of the fact that people can do that and carry it, was notice published of the virulent character of the disease, and that it would be dangerous for cattle owners to assemble at that dairy show at Chicago? Was anything of that kind published?

Dr. MOHLER. Not that I know of. We gave the press the information at once. Here [indicating] are some newspaper notices of the 17th of October. We brought in the only two newspaper men that lived in the city of Niles, Mich., and gave them publication after publication. They used them, and one of the editors said he would send it out to the Associated Press. I do not know what he did. I was not looking after the newspaper end of it.

Mr. COOPER. Is not publicity of primary importance in the case of a great contagion?

Dr. MOHLER. That is the reason we gave it out in that way, and here [indicating] are some of the newspaper notices we gave out.

Mr. COOPER. What paper is that?

Dr. MOHLER. The Niles Star and the Sun.

Mr. COOPER. Those are two papers of which I have never heard, and I do not think they are of general circulation throughout the country.

The CHAIRMAN. In justice to Dr. Mohler—

Mr. COOPER (interposing). I do not wish to be understood as making any criticism of Dr. Mohler personally.

The CHAIRMAN. You are required to publish, in such newspapers, such notices, in the quarantined States or Territories or District of Columbia?

Dr. MOHLER. Yes, sir; and that was done. We can not go and notify individuals or different show people all over the country. Personally I have not given any thought to the dairy show until after I got in Chicago the following week, and then I thought of the danger, when I reached Chicago, of people coming from these infected States and going into the dairy show barns and bringing the infection there with them.

Mr. COOPER. Was not that the season of county fairs?

Dr. MOHLER. Yes, sir.

Mr. COOPER. And that is the season of stock shows all through Minnesota, Wisconsin, and Iowa?

Dr. MOHLER. Yes, sir. Just to show you how peculiarly this disease acts, there in Niles, Mich., in Berrien County, we quarantined not only Berrien County, but Cass County as well. Cass County never became infected, but there were 191 herds slaughtered in that one county of Berrien.

Mr. HELGESEN. How close to each other are those two counties?

Dr. MOHLER. They are adjacent.

Mr. COOPER. You quarantined them on the 19th of October?

Dr. MOHLER. Yes, sir.

Mr. COOPER. You said in your original testimony, and of course it is true, that they discovered in Berrien County 39 herds?

Dr. MOHLER. Yes, sir; on October 16.

Mr. COOPER. In Berrien County they had the foot-and-mouth disease as early as October 19?

Dr. MOHLER. Yes, sir.

Mr. COOPER. And yet the department did not notify and you do not know of a notification having been sent to the management of this great dairy show?

Dr. MOHLER. Yes, sir; it did. That is what I was telling you this morning.

Mr. COOPER. Who received that notification?

Dr. MOHLER. That is what I was trying to ascertain from Dr. Melvin, and he is too ill to communicate with. I do not know whether he told Mr. Skinner, or who he told, but that is the information I submitted this morning.

Mr. COOPER. Are you aware of the fact that after you discovered that disease among the 39 herds of Berrien County, Mich., and quarantined them on the 19th—and, of course, after you had discovered the first instances of the disease at Niles—stock came from the State of Michigan to this dairy show?



Dr. MOHLER. No, sir; I do not know that.

Mr. COOPER. Will you read that telegram which you just received, Col. French?

The CHAIRMAN. Before you do that, permit me to ask Dr. Mohler if he had any way of knowing this stock came from Michigan to this dairy show?

Dr. MOHLER. None at all.

The CHAIRMAN. Had you any connection with the dairy show?

Dr. MOHLER. Not at all.

The CHAIRMAN. Has the department any connection with the dairy show?

Dr. MOHLER. None whatsoever. It is a perfectly independent exhibition.

Mr. COOPER. The dairy show was in Chicago. To go from Berrien County, Mich., or from Niles, Mich., there had to be interstate commerce, and from this State, in which we know that more than 40 herds were afflicted, interstate commerce in cattle was permitted. This telegram which Col. French has just received I would like to have read right at this point.

Mr. FRENCH. Mr. Chairman, Dr. Mohler says the statement was made this morning that we were warned against Michigan. I telegraphed Mr. Skinner, and his reply is:

Was never advised against admitting Michigan cattle. There were 11 head in the show from Grass Lake.

W. E. SKINNER.

The CHAIRMAN. Where is Grass Lake?

Mr. McLAUGHLIN. That is in Jackson County, about 60 miles west of Detroit, on the Michigan Central Railroad.

The CHAIRMAN. How far from Niles, Mr. McLaughlin?

Mr. McLAUGHLIN. One hundred and fifty miles, on the same road.

Mr. FRENCH. Let me finish the telegram to show the absolute fairness of our association. We do not stop there.

And these cattle were among the very last to come down with the disease.

I merely read you this to show we are trying to give the actual facts and not trying to make out a case by concealing anything.

The CHAIRMAN. We believe that thoroughly—all of us.

Mr. COOPER. Mr. McLaughlin, in coming from Grass Lake up near Detroit, they would come right around the south end of Lake Michigan, would they not, right through these counties that were quarantined?

Mr. McLAUGHLIN. Yes, sir; that would be the natural way. There [indicating on map] is Niles. Grass Lake is not marked on this map, but it is between Ann Arbor and Jackson, on the Michigan Central Railroad. The Michigan Central Railroad was run west in the direction of Detroit.

Mr. HAWLEY. Through Niles?

Mr. McLAUGHLIN. Through Niles; yes. Blissfield, that has been spoken of, is over near the Ohio line in the southeast corner of Michigan.

The CHAIRMAN. At the time mentioned of this controversy, Dr. Mohler, did you have any authority to throw a quarantine around the county in which Grass Lake is situated?

Dr. MOHLER. None, sir; none whatever.

The CHAIRMAN. For the reason that no outbreak of this disease was prevalent at that time in that section?

Dr. MOHLER. Yes, sir; we did not quarantine the entire State of Michigan until these shipments from Chicago were sent throughout the State.

The CHAIRMAN. When did you quarantine the entire State of Michigan?

Dr. MOHLER. November 2.

The CHAIRMAN. After this show had closed?

Dr. MOHLER. Yes, sir.

Mr. ANDERSON. Dr. Mohler, there has been some talk about the employees in the show barns traveling around from one cow to the other. I want to ask you by whom those men were employed?

Dr. MOHLER. By the exhibitors.

Mr. ANDERSON. They were not employees of the Government?

Dr. MOHLER. No, sir. The Government employees went in there with rubber coats, rubber hats, rubber gloves, and rubber boots.

Mr. McLAUGHLIN. That is, your men did that?

Dr. MOHLER. Yes, sir.

Mr. ANDERSON. The Government had no control over the employees of the exhibitors?

Dr. MOHLER. Absolutely no control whatsoever.

Mr. HAWLEY. I would like to ask a question or two, Mr. Chairman, if I may.

The CHAIRMAN. Certainly, Mr. Hawley.

Mr. HAWLEY. There was some testimony yesterday to this effect, that after a certain length of time the cattle were taken from the possession of the owners by some other authority and held by that other authority and the owners deprived of the possession of the cattle. Was that authority that took possession of the cattle and ousted the owners of their possession, the authority of the State of Illinois or the authority of the Federal Government?

Dr. MOHLER. I can positively state that it was not the authority of the Department of Agriculture or the United States Government. Whether it was the authority of the State, I am not prepared to say, but it was not the Government.

Mr. ANDERSON. Could the State government or the Federal Government have exercised the control over these cattle which would have excluded the employees of the exhibitors?

Dr. MOHLER. If the Government took charge of a herd of that kind—for instance, under our usual policy of slaughter—we could prevent an employee coming in there under conditions that would make himself dangerous to the neighboring stock on the adjacent premises.

Mr. ANDERSON. In that case, they would be your cattle?

Dr. MOHLER. Yes, sir.

Mr. ANDERSON. And you could do what you pleased with them?

Dr. MOHLER. Yes, sir.

Mr. ANDERSON. In this case they were not your cattle and you did not propose and do not propose to pay for them?

Dr. MOHLER. That is right.

Mr. ANDERSON. So you had no control over the conduct of the barn?

Dr. MOHLER. No; we had not.

Mr. ANDERSON. Or the cattle?

Dr. MOHLER. No, sir; neither one.

Mr. HAWLEY. Mr. Chairman, all the witnesses who were on the stand yesterday, I think, are here now. They heard the question which I just asked Dr. Mohler. I would like to know if there is any disagreement with the statement which he just made?

Mr. COOPER. What was your question, Mr. Hawley?

The CHAIRMAN. I will ask the reporter to read it.

The REPORTER (reading):

Mr. HAWLEY. There was some testimony yesterday to this effect, that after a certain length of time the cattle were taken from the possession of the owners by some other authority and held by that other authority and the owners deprived of the possession of the cattle. Was that authority that took possession of the cattle and ousted the owners of their possession the authority of the State of Illinois or the authority of the Federal Government?

The CHAIRMAN. What was Dr. Mohler's response?

The REPORTER (reading):

Dr. MOHLER. I can positively state that it was not the authority of the Department of Agriculture or the United States Government. Whether it was the authority of the State I am not prepared to say, but it was not the Government.

Mr. HAWLEY. I would like to have the witnesses who testified yesterday on that point make any statement they want to make on this feature, because it seems to me to be a material point.

Mr. SPANN. I will make this statement, Mr. Chairman, that when the foot-and-mouth disease broke out in the barns where the cattle were, an immediate quarantine was put on and the doors locked, and these exhibitors and men outside were not allowed to go in. That lasted several days until finally we got permission from the department to save the cattle and not destroy them. Whether it was the department orders to kill these cattle or not, the word that came to us was that every one of them was to be killed—not the two or three you said you wanted killed, Dr. Mohler, but they were all to be killed.

Mr. HAWLEY. Who put these locks on the barn?

Mr. SPANN. I do not know.

Mr. HAWLEY. The State authority?

Mr. SPANN. I do not know.

Mr. LESHER. Who gave you these orders?

Mr. SPANN. I do not know. They had guards there. We find the State and Government work together. They did in that instance. They locked these barns and said we could not go in.

Mr. HAWLEY. Who said they were going to kill all these cattle—the State authorities or the Federal authorities?

Mr. SPANN. I do not know. I will ask Mr. French if he can tell you.

Mr. FRENCH. Mr. Chairman, for three or four days the State of Illinois and the representative of the United States Government were busy "passing the buck" as to who had authority, and there was no quarantine by either one of them, and if we had been law-breaking citizens we could have taken our cattle out and gone home with them. The exhibitors then put in a quarantine that was effective, not wishing to scatter this disease, and at all times I have been informed that the Department of Agriculture have had a representative in our quarantine establishment. At all times we have asked for and carried out instructions from that man, whoever he might be. We were

so busy trying to save our cattle that we did not raise the question of jurisdiction.

Mr. HAWLEY. Who put the padlocks on the door?

Mr. FRENCH. I am not sure whether the State of Illinois did it or whether the Federal Government did it.

Mr. HELGESEN. Dr. Mohler, do you know on what date the State of Illinois put a quarantine on there?

Dr. MOHLER. No; I am not familiar with the quarantine orders of the State. I think it was about the same time we did.

Mr. McLAUGHLIN. Col. French, you spoke of the failure of the Federal Government to properly quarantine these animals and that your association did establish a quarantine. Was that while they were in the show barn or after they were removed to the race track?

Mr. FRENCH. While they were in the show barn.

Mr. HAWLEY. Do you remember about what date you put your quarantine on?

Mr. FRENCH. About the 1st of November—possibly the 31st day of October, or possibly the 2d of November.

Mr. COOPER. I would like to ask a question, if I may, Mr. Chairman.

Mr. SPANN. Just a moment, Mr. Cooper, please. There seems to be some misunderstanding. When the disease broke out, they went to work and locked these barns up and things inside the barns were in a chaotic state.

Mr. HAWLEY. It is a very important question as to who put the padlocks on there and who put the cards there. I for one am simply asking for information.

Mr. SPANN. We can not tell. The authorities are so intermixed that we can not tell. The State and Federal authorities were working together. What was given out—I can not say that Dr. Bennett gave it out or that Mr. Dyson gave it out, but information was given out, and what we had was that the cattle were going to be killed and there was not any use to do anything about it, and they did not take the manure out of those barns for four or five days. It was the most horrible condition you could imagine. It indicated they had thrown up their hands and the cattle had to be killed, and that is when we took hold and tried to bring things out. They just locked them up, and the men were in there. Sometimes they would get something to eat and sometimes they would not, and they were nearly suffocated by the manure and stuff piled up in the barns. They did not clean the barns for four or five days. They indicated that things were all gone and there was no use doing anything. I am not making any charges, you understand.

Mr. HELGESEN. Did you ask the authorities to give you the necessary rules to be observed in taking care of that stock?

Mr. SPANN. I was not in charge of it.

Mr. FRENCH. We did; yes.

Mr. HELGESEN. You followed the instructions?

Mr. FRENCH. We have at all times; yes, sir.

Mr. Chairman, if I may offer a few remarks here relative to the testimony of Dr. Mohler that the exhibitors were—

The CHAIRMAN (interposing). Let Dr. Mohler conclude his statement first, and then we will hear from you, Col. French.

Mr. MOSS. I would like to ask a question or two, Mr. Chairman.

The CHAIRMAN. Proceed, Mr. MOSS.

Mr. Moss. I think that the whole ground I want to go over has been pretty well covered, but I want to ask a question or two to clear it up in my own mind.

What is the policy of the Federal Government where they throw a quarantine around a yard or order cars disinfected, with reference to the disposition of the refuse that is taken out?

Dr. MOHLER. The quarantine applies to the hay, to the straw, and to the manure as well as to the live stock, and there is no way of getting that manure out except after disinfection. When the question has been put up to Washington about moving manure, we have in the great majority of cases even suggested that they would not move it for a certain period of time. For instance, a report was sent in about two weeks ago from Buffalo.

They had an enormous quantity of manure which they wanted to move, and offered to sprinkle cresol, a very good disinfectant, over every 2 inches of manure, but the order went back saying we would advise them to compost that manure for three or four months before allowing it to go out; and the same information was requested with reference to the yards at Albany, N. Y.

Mr. HAWLEY. You are sure this disinfectant you put on the manure killed the germ or whatever you call it?

Dr. MOHLER. Yes, sir.

Mr. HAWLEY. You are absolutely sure of that?

Dr. MOHLER. Yes, sir.

Mr. HAWLEY. Did you ever try the using of manure to see if it would infect any animal?

Dr. MOHLER. No, but we have stocked a barn after this disinfectant has been used, with animals susceptible to the disease and no symptoms of disease appeared in the animals that were used for restocking purposes.

Mr. Moss. Has the Department of Agriculture, in any case within your knowledge, consented to the sale or distribution of manure that has come out of infected areas without proper and due disinfection?

Dr. MOHLER. No, sir; that is one of the requirements that we try to see is very strongly and rigidly enforced, because of the danger.

Mr. Moss. That is all I desire to ask, Mr. Chairman.

Mr. SPANN. Mr. Chairman, I want to make my testimony plain, then, by asking a question or two.

Do you know the condition of the stockyards at Louisville, and whether they have carried out your instruction there?

Dr. MOHLER. I do not know what was done there. I know the order applies to the Bourbon stockyards as well as any other.

Mr. SPANN. You say your manure at the Buffalo is kept there some time, and you are still instructing them to hold it?

Dr. MOHLER. Yes, sir.

Mr. SPANN. I state to you, Dr. Mohler, that within five days, or not to exceed six days, when the manure was cleaned up out of the Bourbon Stock Yards after their first outbreak, that manure was piled outside, an enormous pile of it, probably 50 feet high and 100 feet long or more, and that the German farmers having farmed all around there, went there and hauled that manure out; and I saw the manure and I saw them hauling it out and I saw it on their farms.

Dr. MOHLER. Was that after the Louisville stock yards were cleaned the first time?

Mr. SPANN. Yes, sir; within five or six days.

Dr. MOHLER. At that time the Louisville stock yards were in clean territory.

Mr. SPANN. They were infected. You had an outbreak there and cleaned it up for that purpose.

Dr. MOHLER. But I am saying after that.

Mr. SPANN. I was there at that time, and I saw them.

Dr. MOHLER. You know for a long period the Bourbon Stock Yards, after they got infected first and were cleaned and disinfected thoroughly, were clean yards and remained so until just recently. During that period the manure there was just as good as any other manure.

Mr. SPANN. It was hauled from those points where they cleaned the stock yards up just after the infection.

Dr. MOHLER. Prior to the 15th of November.

Mr. SPANN. It was just after the infection, I think, which they had out there. They were ordered to clean up and close the yards, and this manure was piled up and the farmers hauled it off, and they have a new infection in Jefferson County.

Dr. MOHLER. Do you mean this last infection in Jefferson County? I think you are getting things mixed up.

Mr. SPANN. I am not at all. During the first infection——

Dr. MOHLER (interrupting). In November?

Mr. SPANN. Yes; they were ordered to clean it up.

Dr. MOHLER. Yes, sir.

Mr. SPANN. And they piled it up there and a lot of German farmers came and hauled it away.

Dr. MOHLER. You do not mean to say this outbreak in February is due to the manure in November?

Mr. SPANN. I could not swear to it, but I am very well satisfied a good deal of it is.

Dr. MOHLER. I will tell you where the Louisville and Jefferson County infection got started, after the Bourbon yards got reinfected from the Chicago yards in February. Several small slaughterers in Louisville took stock out of the yards ostensibly for immediate slaughter, but instead they turned them into their dairies, which they were running in connection with their slaughtering business. There has been a big distillery herd infected, and also a number of herds belonging to these little fellows, who got the disease as a result of breaking the quarantine regulations by taking stock from the Bourbon Stock Yards for purposes other than slaughter, after the yards were reinfected from Chicago.

Mr. SPANN. I simply state the fact that this manure was taken out of these yards when they were ordered cleaned up by your inspectors there, and hauled out on the farms. That is as far as my statement goes.

Dr. MOHLER. Do you know that it was not disinfected?

Mr. SPANN. Possibly it was disinfected, but they took it out in the yards and piled it up there. You do not think it would be safe to take that out, do you?

Dr. MOHLER. That is the only way we have of disinfecting the manure.

Mr. SPANN. You did not allow these men in Buffalo to take it out, did you?

Dr. MOHLER. No.

Mr. SPANN. That is the point I make, that these people in Louisville did, and those people up there in Buffalo did not.

Mr. McLAUGHLIN. There was an outbreak about the middle of November, you say?

Mr. SPANN. Yes.

Mr. McLAUGHLIN. And it was about that time this manure was taken out?

Mr. SPANN. Yes.

Mr. McLAUGHLIN. Dr. Mohler says the next outbreak was in February and was not traceable to that spreading of the manure, and they can trace it definitely back to shipments in Chicago. You said yesterday the spreading of that manure started the disease all over Jefferson County.

Mr. SPANN. No; you can not find that in my evidence. I stated that was spread all over Jefferson County and now they have a new infection. I did not say it was traceable to that, although I believe it is.

Mr. COOPER. He said they spread manure all over the county, and now they have a new infection.

Mr. FRENCH. Dr. Mohler has made a statement, Mr. Chairman, that the owners agreed to move all the cattle from the stockyards to a stable which I had, and that we would bear the expenses. I offered to give them the use of my stables for a year, if they needed them, from a desire simply to help this experiment. That much is true. The question was brought up if we would pay the freight over to that place. We said we would pay the freight the same as we had paid for the feed, but we never had any idea in our minds but what we would be reimbursed for it. I merely mentioned that to clear up Dr. Mohler's statement that we had agreed to pay all the expenses of this experiment.

Mr. HAWLEY. I would like to ask you on that point mentioned a moment ago. You can see the point, that if the Illinois State government or some other authority of the State of Illinois was the party who took your cattle and restrained you from the use of them, that government is the party who is responsible for your loss. If the Federal Government is the party who took your cattle or directed the taking of them, then if you have any claim for loss it would be properly as here. I have been asking for information on that point, and if you have not any now and could get it, I think it would be very useful for the committee to have it.

Mr. FRENCH. We will try to get the positive information. The only quarantine we know of now was the quarantine established by the United States Government, effective October 31. We have never heard of a quarantine being established by the State of Illinois.

Mr. COOPER. I will ask a question, Mr. Chairman, which I have in mind in connection with the question which was read by the reporter a few moments ago.

You established a quarantine, Dr. Mohler, and that was a national quarantine?

Dr. MOHLER. Yes, sir.

Mr. COOPER. Can a national quarantine be enforced to prevent interstate shipments without Federal officials being in charge to prevent interstate shipments? What is the use of your quarantine if you are not in charge to prevent its violation?

Dr. MOHLER. That is true.

Mr. COOPER. Of course it is true.

Dr. MOHLER. But we are not taking charge of individual animals or herds, because we are enforcing interstate regulations.

Mr. COOPER. You established a quarantine on that herd?

Dr. MOHLER. Not particularly on that herd.

Mr. COOPER. No; but on the Union Stock Yards.

Dr. MOHLER. Yes, sir.

Mr. COOPER. Including the herd?

Dr. MOHLER. Yes, sir.

Mr. COOPER. How would that be enforced without Federal supervision?

Dr. MOHLER. It was enforced by Federal supervision of the entire yards.

Mr. COOPER. Including this stock?

Dr. MOHLER. Yes, sir.

Mr. COOPER. Is it your answer, and did you mean to have it understood, that Mr. Hawley was confining his question to the mere matter of supervision of that herd without any regard to the entire quarantine?

Dr. MOHLER. Surely, I assumed he was referring to the individual herd.

Mr. COOPER. But the Federal official or officials, inspectors, etc., in charge of a national quarantine in the State of Illinois, would be in charge of every unit in the stock yards, including that herd.

Mr. LESHER. Is it not up to the State to enforce this law?

Mr. COOPER. Not on an interstate-commerce matter. The State can permit them to be shipped out in violation of the interstate-commerce regulations, but the only way the interstate-commerce regulation can be enforced is by Federal supervision, and a Federal quarantine is of no avail whatever without the Federal authorities to enforce it.

Mr. LESHER. How would you suggest they enforce this law?

Mr. COOPER. Just as they did, by preventing interstate shipments from the yards.

Mr. LESHER. How would you prevent those?

Mr. COOPER. By not allowing them to go out of the yard. They had an official there all the time.

Mr. LESHER. Would you place guards on them?

Mr. COOPER. Certainly. They have officials there and inspectors there to prevent violation of the quarantine.

Mr. LESHER. Would you place guards on these animals?

Mr. COOPER. Undoubtedly, and over the yards. That is what they had there.

Mr. MOSS. Dr. Mohler, when you established the quarantine on the 31st day of October, did you take any more particular charge of this particular herd or these dairy cattle than you did take charge of other cattle in the Union Stock Yards?

Dr. MOHLER. No, sir.

Mr. MOSS. So far as the control of the Government is concerned, it extended over the cattle in the stockyards and to that same degree it was extended over this particular herd in question?

Dr. MOHLER. Yes, sir.

Mr. MOSS. That is the way I understood it.



Dr. MOHLER. Yes, sir.

Mr. HELGESEN. I had to go out for a little while, having another appointment, Mr. Chairman, but just before lunch a question came up as to the refusal of the Government to allow these men to take their herds out in sealed cars and ship them to their own homes. Mr. Spann said he asked permission to ship his cattle to Kentucky in sealed cars, and had permission of the Kentucky authorities to ship them there, but it was refused by Dr. Bennett.

Mr. SPANN. A telegram to the same effect was sent to Dr. Melvin.

Mr. HELGESEN. I asked at that time whether or not, if Dr. Melvin refused to grant permission out on the 29th, he had any authority to do that on the 29th or not?

Dr. MOHLER. No, sir; he had no authority to do it on the 29th.

Mr. HELGESEN. Did he exceed his authority if he did do that?

Dr. MOHLER. Yes, sir.

Mr. COOPER. You said Dr. Melvin; you mean Dr. Bennett?

Mr. HELGESEN. I mean Dr. Bennett; yes.

Dr. MOHLER. I assumed you meant Dr. Bennett.

I would like to make one statement regarding a point brought up this morning, and that was with reference to the auction of a Jersey herd at the dairy show. Mr. McFadden, a townsman of Mr. French, in Davenport, Iowa, was in my office several months ago and told me he personally cried the sale at the dairy barn, and he said the average price received for those Jersey cows was about \$150 per head. That is merely to clear up the question asked by Mr. Moss this morning.

Mr. HAWLEY. Did he say those were fine cattle, or did he controvert Col. French's statement that they were culls?

Dr. MOHLER. He did not make any statement about that at all. I merely asked the question as to what breed of animals he sold and the price obtained.

Mr. Moss. Since the price has been mentioned, I would like to ask Col. French a question. They were not sold as culls on the block? The auctioneer did not mention them as culls on the block?

Mr. FRENCH. Not if he was on the job. No. [Laughter.]

Mr. HELGESEN. Dr. Mohler, if it should develop that the State of Illinois should not declare a quarantine in the Chicago Stock Yards, then it will be quite evident, will it not, that the Federal Government will be responsible for whatever regulations there were in the stock-yards at that time?

Dr. MOHLER. I am quite sure the State of Illinois declared the quarantine. I do not want to assume anything that I know to be contrary to the facts, because I am quite certain the State of Illinois did declare the quarantine.

Mr. HAWLEY. On what date?

Dr. MOHLER. I do not know; I can not recall the date.

Mr. RAMSEY. November 2, I think it was. I think it was that day they put up the notices.

Mr. HAWLEY. That was November 2, you say?

Mr. RAMSEY. It was either Monday or Tuesday. Sunday was the 1st, and either Monday or Tuesday they put up the notices in the exchange and all around the yards.

The CHAIRMAN. Dr. Mohler, what would you say would be the cost of maintaining this yard of 719 cattle, about which we have been

talking, for the length of time that it has been maintained, including the rent, labor, feed, etc., if you have an opinion on that proposition?

Dr. MOHLER. This expense of \$150 per head for the length of time they have been in quarantine—what do I think about the price? Is that the question?

Mr. McLAUGHLIN. The cost of maintaining.

The CHAIRMAN. What do you think has been the cost of maintaining?

Dr. MOHLER. I happen to know it is about \$140 a head.

The CHAIRMAN. Is that \$140 a month?

Dr. MOHLER. No; for the time since the animals were found to be infected up to about the present time.

The CHAIRMAN. That would be how much a month?

Dr. MOHLER. That would be about \$35 a month.

The CHAIRMAN. What do you say as to that cost? Is it exorbitant or not?

Dr. MOHLER. I think it is rather heavy for that number of animals under one barn and with conditions as they were. I think it is rather a heavy expense.

The CHAIRMAN. What do you think would be a reasonable expense?

Dr. MOHLER. \$20 a month is about the price I should think would be reasonable under the circumstances.

Mr. HELGESEN. They testified they paid \$40 for hay.

Dr. MOHLER. I was not asked the question as to the cause.

Mr. FRENCH. Would it not cost a little more to maintain them under hospital conditions than ordinary conditions?

Dr. MOHLER. Certainly. But I think \$35 a month is rather exorbitant.

Mr. FRENCH. It is exorbitant because the charges of the Union Stock Yards are exorbitant, and we paid them under protest.

Mr. MOSS. As a matter of interest to myself, I would like to know what is the policy of the Government toward this herd of cattle—that is, its future policy?

Dr. MOHLER. Mr. Moss, the policy of the department will rest entirely upon the outcome of this test with a number of feeders that are being held ready to place among the apparently recovered animals.

Mr. MOSS. Is it within the possibility of events that the Government will release these cattle?

Dr. MOHLER. That is possible; yes, sir. If these 43 feeders, or whatever the number may be, show, after a period of time, that they have not contracted any disease from the seven hundred and odd dairy show animals, there is no reason why any other animals should contract the disease from them in their home States.

Mr. HAWLEY. You are absolutely sure these 43, which are going to be put in there, have had no way of getting infected outside?

Dr. MOHLER. That is the very process of elimination they are undergoing now. They are remaining outside for a period of 12 days before they are placed among these animals, so if they do become infected we will be absolutely sure the disease occurred from within and not from without the Hawthorne track.

The CHAIRMAN. We are very much obliged, Dr. Mohler, for your attendance here..

Col. French, do you desire to make any supplemental statement?

Mr. FRENCH. I do not, Mr. Chairman, thank you.

Mr. SPANN. Mr. Chairman, I want to thank the committee, and I want to thank Dr. Mohler, and I want to say to you that I have no feeling against anybody in this investigation, and I have no criticism to make against the department. I want to thank Dr. Houston and the department as well for giving us an opportunity to save these cattle. I think the criticism of Dr. Bennett at Chicago is because we think he was unfair to us and discriminated against us. I want to thank Dr. Mohler for stating that there is a possibility that we will get our cattle. That is the most encouraging thing we have heard.

We are very grateful to you, Mr. Chairman, for this hearing.

The CHAIRMAN. The committee will go into executive session.

(Thereupon, at 4 o'clock p. m., the committee went into executive session.)



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